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THE ROYAL ECONOMIC SOCIETY.

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MARCH, 1919

NEW LIGHT ON THE ECONOMIC CAUSES OF THE FRENCH REVOLUTION

In November, 1903, M. Jaurès proposed to the French Chamber that the French Government should undertake to publish documents relating to the economic side of the French Revolution, on which he asserted no printed collection of documents existed. A "Commission chargée de rechercher et publier des documents d'archives relatifs à la vie économique de la Révolution" was duly appointed. The Committee was very energetic. Departmental committees were created to undertake researches into local archives and make proposals to the central commission of documents for publication. A huge inquiry was undertaken all over France and a great deal of local interest was stimulated, which resulted in the formation of local societies to explore and publish details of economic importance to the locality. The result is that a number of documents have already been made available[1] relating to the grievances of the peasants, the abolition of feudal rights, the sale of the confiscated lands of the Church and the Crown, and the general condition of industry and agriculture both before and immediately after the Revolution. A school of French economic historians has grown up in the twentieth century who have made this period their own. MM. Bloch, Bourgain, Carón, Gerbaux, Marcel Marion, Sagnac, C. Schmidt, and Sée, to mention only a few of the more celebrated names, have all recently contributed to our knowledge of pre- and post-revolutionary conditions. In addition, French economic history of the eighteenth century has recently been studied by Russian his-

[1] Sée: *Revue historique,* 1911, Vol. 106. "L'œuvre de la Commission des Documents Économiques de la Révolution française," p. 318.

torians, who have rather concentrated on conditions immediately before the Revolution. The works of MM. Luchitsky,[2] Kovalevsky,[3] Kareiev,[4] Afanassiev (Athanas'ev),[5] and Ardascheff,[6] to name only a few who have been translated into French, are especially valuable, as so much of what they describe for the period 1750–1789 was going on under their own eyes in their own country in the twentieth century. They were therefore able to understand the significance of movements which to us have become historical. We are now in a position to begin to understand the great underlying economic movements of the French Revolution which have been so neglected hitherto and which throw a new light on the happenings of that momentous period.

Recent research has shown that in addition to the burden of taxation unequally levied and most oppressively collected, there were other economic grievances which were effective in bringing the great mass of the working classes in France into line with the revolutionary leaders. There were, in fact, two parallel movements in France making for change. One was a political constitutional movement, the backbone of which was the middle class of prosperous townsmen, lawyers, and other professional men. They wanted a direct voice in public affairs; they wanted a Constitution which should embody their views; they wanted a reformed fiscal system with less waste; they wanted a career open to them in the army, navy, and diplomatic service; they believed in commercial freedom and in freedom for the individual to realise his capacity in any direction that seemed good to him. Therefore, financial reform and a Constitution, the abolition of privilege and *laissez-faire* as a policy, all seemed to this class the great goals of reform.

The other movement was more purely economic, and had its origin in the condition of the French peasant. It arose out of the fact that France was over-populated, and could not feed her people in the then stage of her agricultural development. She was subject to famines and scarcities all through the eighteenth century. Any attempt at introducing better agricultural methods and larger yields meant large farms and enclosure of wastes and commons, both of which roused bitter opposition among the

[2] *L'état des classes agricoles en France à la veille de la Révolution*, 1911. *Quelques remarques sur la vente des biens nationaux*, 1913. *La propriété paysanne en France à la veille de la Révolution*, 1911.

[3] *La France à la veille de la Révolution*. I. Les Campagnes, 1909 II. Les Villes, 1911.

[4] *Les paysans et la question paysanne en France dans le dernier quart du XVIIIe siècle*.

[5] *Le commerce des céréales en France*.

[6] *Les intendants de province sous Louis XVI.*, 1909.

peasantry. Already too numerous for the available land, they found their opportunities of obtaining more land curtailed by the growth of large farms. Nor were their small holdings of much use without the addition of the commons. The enclosure of these and the break-up of wastes roused an intense hatred of the reforming agriculturists. They, on the other hand, needed capital to carry through their improvements in agriculture, which were, after all, essential for the country if it was to support its growing population. They therefore began to increase in various ways their feudal demands, and again roused fresh opposition, not merely because they were improving their land in a way that injured the peasantry, but because they were making the existing burdens harder to bear and were claiming arrears.

On the other hand, there was a growing prosperity in the country districts, due to the spread of rural bye-industries. By the decrees of 1762 people were allowed to manufacture outside the jurisdiction of the gilds. Industries rapidly grew up in the country, and proved a very valuable asset to a heavily-taxed peasantry. This flourishing industry received a heavy blow after the treaty of 1786 with Great Britain. Liberal tariff reductions were made on both sides; France was swamped with English goods, and a severe industrial crisis set in, culminating in 1788. Peasants lost their industrial bye-employment, artisans were out of work in the towns, and thousands emigrated. It is scarcely to be wondered that, when famine followed, as it did in 1788–9, peasants and town artisans were willing to join any party which promised a new heaven and a new earth. Although to the leaders this meant constitutional reform, to the peasants it meant the abolition of feudal dues and the possession of more land. Hence, while the lawyers were debating the rights of man the peasants forced the pace; they insisted on the abolition of feudalism without compensation, and the government was forced to try and satisfy the land hunger by the sale of royal, noble, and ecclesiastical estates.

The France of 1789 was essentially an agricultural country. Twenty out of the twenty-six million inhabitants gained their living in connection with agriculture,[7] and therefore to the bulk of the people agricultural questions outweighed all others in their pressing importance.

While the condition of the rural population varied enormously

[7] Levasseur: *Population Française*, I. p. 288. According to a document drawn up in 1787 and presented by Calonne to the Assembly of Notables, the population gathered in towns of any size (*i.e.*, over 10,000 people) was about 2½ million only out of 26 million.

from district to district in France,[8] one feature is noticeable all through the eighteenth century, and that is that the peasants were steadily increasing the amount of land they held. They were constantly buying land from the nobles, whose share was diminishing.[9] Then, too, serfdom had practically disappeared.[10] The French noble had ceased to have the power to keep a man on the land; the peasant was able to own property, sell it or leave it by will, and marry his children without his lord's consent, all of which was impossible for the genuine serf. In comparison with the German, Austrian, Russian, or Danish peasant of the period, the position of the French peasant was good and was improving.

An important incident of serf tenure was the obligation on the peasant to give so many days' work a week to his lord in return for his holding. These labour dues or *corvées* had in the majority of cases been commuted for fixed payments in kind or a small money payment, which had become trifling as the value of money decreased, though here and there survivals of the *corvées* were to be found.[11] The fact was that the lords cultivated such a small proportion of their land themselves that they did not require anyone to work on their land, and the *corvées* had ceased to be demanded. The lord's land was so intermingled in scattered strips with the peasants' holdings that it was almost impossible for the owner to cultivate it as a single undertaking.[12] Hence he let his land to tenants and sometimes sold it to them.

There were in France two classes of peasants—those who owned their land and those who hired it for purposes of cultivation. Of these latter some would have a lease and pay a fixed rent in money or in kind, generally the latter—this was the prevailing type in the North. Others would hold their land on the *métayer* system, the lord finding land, cattle, and seed and the peasant tools and labour, and both sharing the produce, whatever it might be. This was the prevailing type south of the Loire.

All classes, however, whether owners, leaseholders, or

[8] Compare See: *Les classes rurales en Bretagne*, 1906, where conditions seem to have been especially miserable (p. 517) with Marion, M. "Les classes rurales dans le généralité de Bordeaux" in *Revue des études historiques*, 1902, where the lot of the peasants was distinctly improving.

[9] Luchitsky: *État des classes agricoles*, pp. 19–24.

[10] It has been calculated that the number of serfs in 1789 was only 1,500,000. Lavisse: *Histoire de France*, IX. p. 255. For survivals of astriction to the soil see Kovalevsky, *op. cit.* p. 258.

[11] Kovalevsky, *op. cit.* p. 262, 263. Sée: "La portée du régime seigniorale au XVIIIe. siècle" in the *Revue d'histoire moderne et contemporaine*, 1908, X. p. 175.

[12] Luchitsky: *État*, p. 56–58. He points out that in Limousin out of 40,000 arpents of land owned by the nobles only 1,150 arpents, *i.e.*, 2·9 per cent., were cultivated by them.

métayer-tenants, had to pay dues to the *seigneur*, who might or might not be the same person as the owner of the land.[13] The peasant owner would merely pay these dues, the tenant would pay his rent or share of produce and the dues in addition. Therefore, over and above the taxes paid to the King, there was the taxation to be paid to the *seigneur*, for the *seigneurie* was a State within a State.

Of these feudal dues one item consisted of *banalités*, viz., the obligation of the peasant to take his corn to the lord's mill to be ground or his grapes to the lord's wine-press to be made into wine, a payment in kind being taken for the service rendered.[14] Whenever land was sold a proportion of the sale price varying from one-fourth to one-sixteenth had to be given to the *seigneur* (*lods et ventes*). Another due known as Cens or Champart was an annual payment in kind varying in amount from place to place, but usually consisting of one sheaf in ten or twelve. This had to be carted by the grower to the *seigneur's* barn. In addition, there was a payment when a man inherited his land, usually amounting to a year's rent. Furthermore, the *seigneur* had the right of administering justice and taking fees for so doing. Only in criminal matters had his jurisdiction been diminished by 1789. He was also entitled to levy tolls on all goods in transit as well as on goods exposed for sale in the market. Probably the most unpopular of all the feudal dues were the hunting rights, which caused the spoiling of much produce and interfered with the course of agriculture.[15]

While the proportion paid to the *seigneur* was smaller than that paid to the Church and far smaller than that paid to the King, these dues were resented in that the peasant received no equivalent for them and the actual amount paid was often unequally levied and vexatiously collected. Two arpents of land of the same quality in the same parish would pay different sums as dues.[16] Some peasants had not one, but three or even seven *seigneurs*, and had to deliver the grain at each chateau. With the growing tendency to acquire land, the peasant resented more

[13] Some seigneurs drew large revenues from regions where they had no land. This was the case of the Princes of Monaco, Soubise, and duc de Noailles. The latter drew large sums as seigneurial dues from Limousin and only owned 600 arpents of land there, mostly uncultivated. See Luchitsky: *État*, p. 88.

[14] In the case of grain the actual amount due was one-sixteenth, but in practice the miller often took more. See Sée: "La portée," *op. cit.* p. 178.

[15] See Sagnac in *L'œuvre sociale de la Révolution française*. ed. Faguet, p. 225. Only 3,000 out of the 70,000 seigneurs possessed hunting rights. Kovalevsky, p. 238.

[16] Luchitsky: *État*, p. 91.

and more these rights, which hindered him in the enjoyment of the full ownership of the land he acquired.

The amount of land actually owned or cultivated by the peasants is not known. One thing is certain, and that is that the French Revolution by no means created the peasant proprietor; it is doubtful if it even increased his number. It freed him from seigniorial dues and made him a freeholder instead of a copyholder, but either as tenant or owner he worked the bulk of the cultivated land of France before 1789.[17] The average size of the holding of the French peasant was probably a very small one.[18] The peasant would grow for his own subsistence and not for a market. He would pay his dues or rent in grain, and it was the landowners and *seigneurs* who would have the surplus of grain wherewith to furnish the markets. There were, however, many large peasant properties to be found,[19] though the small ones were typical and there was a widespread ownership of land. Even the beggars owned land in Bordelais,[20] and, as has been said above, this peasant ownership was on the increase.[21]

Dupont de Nemours, an agricultural expert of the eighteenth century, estimated that the clergy and the nobles held four-fifths of the woods, pastures, and marshes and one-sixth only of the arable land.[22] Luchitsky having examined the taxation returns relating to the *vingtièmes*, considers that a third was owned by the peasants in the north in Picardy, Artois, and Soissons; in the Orleannais and Burgundy they held the same proportion or a little more; in the provinces of the centre they owned a half; in

[17] Luchitsky: *Propriété paysanne*, p. 249.

[18] Levasseur: *Classes ouvrières avant* 1789, II. p. 772, *note*. The amount of capital possessed by the French peasant was so small that he could not have undertaken a large property. Cf. Luchitsky: *Petite Propriété en France avant la Révolution* (1897), p. 66. In Laonnais

1·3%	of the peasants possessed	50	arpents and over
4·14%	.. ..	20–50	,,
17·3%	.. ..	5–20	,,
26·5%	.. ..	1–5	,,
49·5%	.. ..	less than 1 arpent.	

[19] Sée: *Classes rurales en Bretagne*, p. 242–3; Luchitsky: *Propriété paysanne*.

[20] Marion: "Les classes rurales dans le généralité de Bordeaux" in *Revue des études historiques*, 1902, p. 99. See also Sée: *Classes rurales en Bretagne*, p. 70–75.

[21] Between 1750 and 1785 in Soissons the peasants had acquired four times as much land as they had lost; in Limousin between 1779 and 1791 of the land changing hands the nobles had bought 9·5 per cent. and sold 49·5; the bourgeois had bought 30·6 and sold 36·7 per cent. The peasants had sold 8·5 per cent. or 700 arpents and had acquired 55 per cent. or 4,700 arpents. It was the same in other provinces very different in character, such as Languedoc. Luchitsky: *État*, pp. 20, 21.

[22] Lavisse: *Histoire de France*, IX. p. 246.

some parts of the east their share was two-fifths; in the south in Languedoc and Guyenne and part of Provence it rose to a half, and it was only in the neighbourhood of the towns that this proportion shrank.[23] In addition to this, they would rent land as tenants or work it on the *métayer* system. The bourgeois who held land were largely officials; the industrial or commercial classes scarcely appear at all as large landowners,[24] which accounts to a certain extent for the lack of capital and enterprise in French farming. The bulk of the land owned by the Church was in the north, which was also the region where the large farms were to be found, *i.e.*, in Artois, Picardy, Normandy, the Isle de France, and Beauce.

The fact that the cultivatable land was to so large an extent in the hands of ignorant peasants accounts for the backward nature of French agriculture and its deplorable results in the constant scarcities from which France suffered in the eighteenth century. The methods of agriculture were those handed down from manorial times. The ploughing and reaping were done in common, and the whole community had the right of turning the beasts over the reaped land after harvest to keep the cattle alive during the winter. Large wastes were also necessary on which the draught or plough oxen might live during the summer when the corn or hay was growing in the cultivated fields, and this prevented the extension of arable fields.

The corn land was either cultivated on the extensive system of one year cropped and the next fallow or on the three-field rotation of two crops and a fallow. It was estimated by Dupont de Nemours in 1786 that in France 18 million arpents were cultivated on the system of alternate crop and fallow and 12 on the three-field rotation. Thus 13 million arpents out of 30, or nearly a half of the arable land of France, would lie uncultivated every year.[25]

In addition to the fallow land, there was in France an enormous extent of heath, forest, and marsh. Arthur Young said that between a sixth and a seventh of the whole kingdom was occupied by wood, a necessity in a country where little coal was worked,[26] and where wood was the only fuel. He estimated that

[23] Luchitsky: *État*, pp. 17, 42.

[24] Cf. England, where they were the principal element in the eighteenth century. See Ashley: *Economic Organisation*, p. 124–8.

[25] His report is quoted in Pigeonneau: *L'administration de l'agriculture au contrôle générale des finances* 1785–87, p. 268. The arpent varied from place to place. For purposes of rough estimation it may be taken as a little over an acre; 12 million arpents are approximately 13,750,000 acres.

[26] *Travels in France*, edition 1794, Vol. I, pp. 373, 472.

18 million English acres were sheer wastes, and tracts no more productive than wastes brought this up to 40 million acres altogether.[27] Nor did the land actually cultivated yield well. With the exception of Flanders and Alsace, he said that "the tillage of the kingdom is most miserably performed, and many of the provinces are in this respect so backward that to English eyes they appeared to be pitiably conducted." He said that there was insufficient capital applied to the land, and saw "nothing respectable on small properties but a most unremitting industry." He considered that France was "too populous to be happy,"[27a] the competition for employment being already too great to permit the people to live in comfort.[28] "In France population outstripping the demand is a public nuisance."[28a] With its 26 million people, its large wastes and forests, its backward system of agriculture, it is scarcely to be wondered that France suffered frequently from famines. The years 1709, 1725, 1749, 1768, 1775, and 1785 seem to have been specially bad years. Indeed, so bad was the famine in 1709 that the population, which had probably been 19 million in 1700, had dropped to 16 or 17 million by 1714.[29] Kareiev says that risings took place on account of food scarcity almost every year during the eighteenth century,[30] while Bonnemère speaks of thirty famines between 1700 and 1789.[31]

Communications were so undeveloped that even if one district had a surplus it was very difficult to transfer it to another that had too little, and the result was that the slightest hint of a scarcity sent prices soaring up, and grain was promptly hoarded. However liberal the Government might be, under the influence of the Physiocrats, in allowing grain to be transferred, the movement of

[27] Ib. Vol. II, p. 96. His view of the enormous extent of the wastes is confirmed by a French agricultural expert, the Marquis de Turbilly, who speaks of half the country being waste. See Weulersee: *L'école physiocratique en France,* 1911, p. 316–7.

[27a] I. p. 41.

[28] *Travels in France,* I. p. 453.

[28a] I. p. 409.

[29] Levasseur: *Population française,* I. p. 211

[30] See the list of authorities quoted by him in "Les émeutes d'affamés," p. 631–633 in *Les paysans et la question paysanne en France dans le dernier quart du dix-huitième siècle.*

[31] *Histoire des paysans,* II. p. 127. Taine in his *Ancien Régime* (English edition, 1876, p. 334) mentions risings in Normandy in 1725, 1737, 1739, 1752, 1764 and 1765, 1766, 1767, 1768 always on the subject of food scarcity. The same phenomenon appears in 1770 at Rheims, in 1775 at Dijon, Versailles, St. Germain, Aix in Provence, while 1788 and 1789 were years of scarcity in all France. See also Letaconnoux: "La question du subsistence et du commerce des grains au XVIIIe siècle" in the *Revue d'histoire moderne et contemporaine,* 1907, p. 409 and "L'agriculture et la Révolution" by Bourgain, p. 163 in the *Revue d'histoire des doctrines économiques et sociales,* 1911. For Bordeaux. Marion, *op. cit.*, p. 464–474.

grain was nearly always obstructed by the people, who feared a shortage, while the physical difficulties of sheer transport were very great,[32] and were complicated by the way in which weights and measures varied from district to district and by the innumerable tolls or *péages* on roads and rivers and on sales in the markets. The scarcity threatened to get worse as the population increased, and the result was a general rise of 40 to 50 per cent. in the price of grain in the last half of the eighteenth century.

The only hope of preventing the recurrence of the dearths seemed to lie in an increase of the yields of corn. In the eighteenth century this meant animal manure, and there was a scarcity of animals in France owing to the fact that there was so little winter fodder when there was no artificial pasture, little hay, and no roots, while feeding beasts on grain when it was so scarce for human beings was unthinkable. It was estimated by the experts of the committee of agriculture in 1786 that there were only 1,800,000 cows, 1,200,000 calves, and 1,700,000 horses and 20 million sheep in all France.[33] "The proportion of farm animals is insufficient and does not furnish the necessary manure for cultivation," was the verdict. It was one thing, however, for the experts to say what ought to be done; it was quite another thing to get it done in the then state of France. The clergy, for instance, were against any change to permanent pasture, as this would make their tithes so much more difficult to collect.[34] But the chief difficulty was the great subdivision of the actual pieces of land in cultivation. The *Journal Œconomique* of February, 1763,[35] says that "the land is so subdivided in all our provinces that the majority of strips are only a few perches, so that an ordinary worker who cultivates 30 arpents has to take them in a hundred different plots at a considerable distance one from the other." It would be necessary to consolidate the strips and form larger farms if the soil were to be economically cultivated, and with the growing demand for more land the tendency was all the other way—a man had to get land to live; emigration never

[32] Letaconnoux: "La question du subsistence et du commerce des grains" in *Revue d'histoire moderne*, 1907, Vol. VIII. See also "Les Transports en France au XVIII. siècle" by Letaçonnoux in the same review, Vol. XI. Oct. 1909. Of 32 provinces 10 produced more than they could consume, 10 nearly sufficed for their own wants and 12 were deficient. A good deal of wheat was imported.

[33] Pigeonneau: *De l'administration, op. cit.* p. 19.

[34] Marion, H.: *La dîme ecclésiastique en France au XVIIIe. siècle,* p. 124. See also Marion, M.: "Les classes rurales en Bordelais" in *Revue, op. cit.* p. 452.

[35] p. 61.

seems to have been a possible alternative to the peasant, and hence passion for land and the uneconomic holding as a result.

The upper classes in France realised the necessity for improved production, and there grew up after 1750 a great enthusiasm for agricultural improvement. The big landowners were eager to imitate their English contemporaries, "the spirited proprietors," and at the same time relieve the almost perennial scarcity in France. Prices were rising and an increased yield would be very profitable even if it involved capital outlay. The philosophy of the day encouraged this enthusiasm for agriculture. The Physiocrats taught that it was the sole productive industry, and the return to Nature advocated by Rousseau made agriculture a fashionable pursuit. The rising prices, moreover, made it necessary for the landowners to get more money if they wished to preserve their standard of life. A certain number of great landed proprietors began to live on their estates and carry out scientific agriculture,[36] societies of agriculture were formed all over the country; a department of agriculture was created in 1761 to initiate and help on improvements, and this was re-enforced by a special committee of experts set up in 1785 (a year of scarcity), which sat till 1787.[37]

The typical English enlightened farmer of the day was the person to whom the French experts turned for inspiration. He farmed an enclosed compact area of considerable size—the very antithesis of the French peasant with his scattered morsels of land. Hence the desire of the French experts was to create large farms of the English type; also to enclose wastes as the English landlords were doing, and to drain the marshes as the English were doing in the fens. All this, when carried out in England, had led to the ousting of the small cultivator. In England he had the alternative of factory work; in France he had no alternative, and the movement was bitterly resisted. The rural population of Flandre Maritime when stating their demands and grievances in the Cahiers in 1789 are chiefly concerned to ask for the division of large farms into small ones and the prohibition of the accumulation of small farms in one hand to create large farms.[38] This movement to create large farms took place in other parts of France, so that M. d'Avenel declares that there was a veritable

[36] The Marquis de Turbilly, the duc d'Harcourt, the duc de La Rochefoucauld, the duc de Liancourt, the duc de Charost.

[37] *De l'administration de l'agriculture*, 1785–7, Pigeonneau et Foville, p. VI (VIII).

[38] *Cahiers de la Flandre Maritime en* 1789, edited by Saint Léger et P. Sagnac, 1906. Also *Cahiers du baillage d'Alençon*, ed. Duval, p. 77 *ff*.

revolution in agriculture going on equivalent to the factory movement in industry.[39]

It is probable, however, that the view of M. d'Avenel is exaggerated, for the rapid development of large farms in France was held back by three factors. In the first place there was no class in France resembling that of the English agricultural labourer, and therefore there was a difficulty in getting labour for large-scale farming.[40] There was also the further difficulty of sorting out the strips into a compact whole for intensive farming. Being let to many tenants, it was not easy to resume possession of the strips rapidly or possible to combine them quickly. There would probably be little blocks of copy-holders in the way who could not be easily got rid of, and would have to be bought out. Then, too, the average French noble was poor,[41] and lacked capital, and improved farming meant sinking capital in the land. In so far as the movement towards large farms did progress, it limited the chance of the French rural population obtaining land at a time when the pressure of population on the land was increasing and the resorting of the strips created much friction between landlord and peasant.[42]

At the same time the man who possessed or rented a small holding was attacked from another quarter. Much of the value of the small properties depended on two things—the first was the fact that he could supplement his arable strips by turning any cattle he might have on to the wastes, and the second was the right of supplementing pasturage in winter by turning the beasts over all the arable land after the harvest was gathered (*vaine pâture*). Moreover, from the wastes and forests the peasant drew his supply of fuel in the shape of turf or wood and the material for the repair of his house and his implements. In the latter half of the eighteenth century the Government was doing its best to help the improving landlords to break up wastes and abolish the right of common pasture after the harvest. To break up the wastes would add to the arable area of the country and increase the food supply; to abolish the right of pasture would give a chance for the development of root crops and winter fodder for the cattle. This would increase their numbers and increase the manure supply, which lay at the basis of all attempts at intensive farming.

[39] *Histoire de la propriété*, etc., I. p. 285. Sée: *Classes rurales*, p. 262. There is no trace of this in Brittany however. Wolters, *Studien zur Agrargeschichte Frankreichs*, p. 240.

[40] Luchitsky: *État*, p. 35. For Bordeaux, Marion, *op. cit.* p. 355.

[41] Kovalevsky: p. 299.

[42] Kovalevsky: pp. 153–6.

Probably no movement created more friction in France than the attempt to enclose wastes, if we may judge from the complaints in the Cahiers and those addressed to the Committee on feudal rights which was appointed in August, 1789, to inquire into some of the burning agricultural questions.[43]

In the process of centuries the *seigneurs* had gradually acquired the ownership of the wastes, but the peasants had enjoyed certain servitudes over them and in some cases had become part proprietors of the commons. The royal power had always protected the peasant rights as against the over-lords, realising that the use of the commons in the then state of agriculture was essential to the small farmer if he were to be in a position to pay taxes at all. Hence a series of edicts were issued during the seventeenth century, culminating in one of 1667,[44] all designed to protect the rights of the peasants to pasture on the waste, wood-cutting, etc. In the eighteenth century this great prop was withdrawn, and the object of the Government confronted by famines was to increase the yields, cultivate the wastes, and drain the marshy land. Moreover, with the ideas of individualism then in vogue the general policy was against this communal and wasteful user of land that would yield better, so it was thought, in individual ownership. One of the principal movements of the day was to divide up the wastes between peasants and lords. From 1760 onwards a series of decrees was issued offering special inducements to persons who would break up wastes.[45-6] The land so broken up was free of taxes for fifteen years, also free of tithe for periods varying from ten to forty years.[47]

The various *parlements*, many of whose members were landowners, favoured the carrying out of these decrees, as did also the intendants, and considerable land reclamation was carried out.[48] While new holdings would be thus created and more opportunity given to the peasants to get land, the lords, according to

[43] Sagnac et Caron : " Les comités des droits féodaux " in *Collection des documents inédits sur l'histoire économique de la Révolution française*, 1907, p. 145–155 and 507–621.

[44] " Les communaux et la révolution française " by Bourgain in *Nouvelle revue historique de droit français et étranger*, Nov.–Dec. 1908. For documents see Bourgain : " Le partage des biens communaux " in *Coll. des doc. inédits.*

[45-6] The edicts of 1761 and 1762 were designed to encourage the breaking up of wastes in the generalities of Paris, Amiens, Soissons, Orleans, Bourges, Moulins, Lyons. Riom, Poitiers, La Rochelle, Limoges, Bordeaux, Tours, Champagne. Rouen, Caen, Alençon. In 1764 all owners of marshes were encouraged to drain them. In 1768 the edicts were extended to Brittany, in 1770 to Languedoc. There were also special authorisations for enclosures in special places.

[47] Marion, H. : *Le dîme ecclésiastique*, p. 49–53.

[48] See figures of reclamation given in Lavisse : *Histoire de France*, IX. p. 212.

the Cahiers, were guilty of much high-handedness and oppression in carrying out what was undoubtedly a much-needed agricultural improvement. The proprietors had a right, called "triage," of withdrawing into their own possession a third or two-thirds, as the case might be, of the woods and wastes. This right was constantly exercised in the last half of the eighteenth century.[49] They were, however, not always satisfied with the "triage" allowance. In many cases they simply dispossessed the users of the commons and enclosed without any form of law. This was all the more easy as they held the administration of justice in their own hands. The men with small plots of land—the most typical of the French rural population—could no longer get wood or pasture a goat or a cow on the waste. Life became much harder,[50] especially as the right of pasturing on the common fields after harvest was being withdrawn at the same time. Bitter animosity was felt against those who took the new holdings.[51] This enclosure of wastes took place all over France, if one may judge from the Cahiers, but was most pronounced where the seigniorial power was strongest, as in Lorraine.

The Government, anxious to improve agricultural methods, was so convinced of the harmfulness of the practice of throwing open the arable fields after harvest that it did its best to abolish this practice also, and issued a series of edicts between 1767 and 1777 authorising owners to enclose their lands in those provinces where the practice of open fields was most prevalent. The question was complicated by the fact that not only did the inhabitants of a certain parish or area pasture their beasts on the arable fields, but there was another easement, the *droit de parcours* by which other parishes had the right of pasture over certain areas. It chiefly applied in mountain regions, and was designed to give the mountain people winter pasture in the valleys. The result of the animals passing to and fro to these open pastures was a great grievance, and the multitude of interests involved made any agreement at enclosure by consent impossible.[52]

An inquiry held by Calonne in 1787 reveals that very little enclosure of the open fields actually took place. Where it was carried through, however, the small men were further deprived of their pasture rights; they were left without winter grass for

[49] Sée: *La portée*, p. 188 and instances given in Sagnac and Caron: *Coll. des doc. inédits.* Also Lefeuvre: *Communs en Bretagne*, pp. 54 and 128.

[50] Kovalevsky: *op. cit.* pp. 140, 142, 166, 205–214.

[51] Sée: *Classes rurales en Bretagne*, p. 233.

[52] Sée: "La question de la vaine pâture" in *Revue d'histoire économique et sociale*, 1914; also an article on the same subject by the same writer in *Revue du dix-huitième siècle*, 1913.

the cattle, which diminished accordingly, and this meant a scarcity of manure. Nor could they pasture the cattle anywhere else, as the wastes were being enclosed all round them.[53]

In addition to this tendency towards larger farms and break up of the wastes, a movement was on foot to increase payments generally both for rent and feudal dues.

The period 1764–1789 was a time of rising prices, as was inevitable with a population pressing so drastically on the food supply.[54] There was a great demand for land at any price, and there was a general rise in farm rents, especially of large farms. In many cases rents doubled in a short period.[55] There was a great incentive to land improvement in the rising prices, but the French seigneur lacked capital, and he set out to try and get it. He revised the methods by which his rents and dues were paid, and thereby increased the burden of the feudal dues and roused an already exasperated and alarmed peasantry to challenge the whole feudal *régime*. The feudal dues, like the rents, were usually paid in kind. Both were collected by middlemen, who sold the produce and handed over the money value to the lord.[56] Contemporaries considered that under the best conditions the collection absorbed one-fourth of the revenue, and where there was any difficulty in payment, or a lawsuit was necessary, the better part of the revenue seems to have been lost to the lord.[57] The yields under the métayer system were very uncertain, and the lord's share varied enormously from year to year. There was therefore a great desire among the lords to let land on lease and let it for a money payment.[58] Payments in money were felt by the peasant, however, to be more exacting than payments in kind. The métayer, who depended on his lord to provide him not merely with land but with capital to work it, felt the pressure severely when the lord tried to substitute leases. It was more difficult for him to take up land if he had to provide working capital himself. The man who has not been accustomed to money payments is usually in a very difficult position. It means resort to a money-

[53] Kareiev : *op. cit.* p. 142–159. Kovalevsky, *op. cit.* 207–211.

[54] Wolters : *op. cit.* p. 226.

[55] Luchitsky : *État,* p. 99 states that in the North (the region of large farms) land which in 1747 had been let for 475 livres let for 1,000 livres in 1774. In Brittany a farm let for 200 in 1776 was let for 350 by 1778. Levasseur : *Classes ouvrières avant* 1789 II. p. 772 notes that 10 farms possessed by the hospices of Rouen were let before 1750 for sums ranging from 300 to 4,500 livres, in all 13,300. By 1787 this sum had doubled. Sée : *Classes rurales,* p. 259–61, gives many instances of rents doubling between 1726 and 1785. For a corresponding rise in England see Levy, H. : *Die Not der englischen Landwirte*, pp. 5–7.

[56] Luchitsky : *État,* pp. 76–78.

[57] Kovalevsky, *op. cit.* p. 278–9.

[58] Kovalevsky, *op. cit.* p. 169.

lender, a high rate of interest, and the pledging of the crop in advance. In France it was a matter of special difficulty as the old ideas about usury prevented his getting loans easily,[59] and yet he had to get money to make money payments. Not merely was there an attempt to get more rent in the form of money, but there was a movement on foot to turn the feudal payments into money. Instead of giving up so much meal to the miller for grinding corn a money payment was often required.[60]

There was also a successful attempt to insist on arrears of feudal dues being paid as well as a revival of payments long since obsolete. A professional class of "feudistes" existed whose business it was to search out and discover claims of feudal origin, and in the latter half of the eighteenth century these were stimulated to discover new claims.[61] Many feudal payments had fallen into abeyance altogether;[62] there were arrears often of thirty years. It was now being insisted not merely that the dues should be paid in future, but that they should also be paid for years in the past. Remissions and reductions also ceased. As there had been a general rise of prices, arrears if collected in kind would be worth substantially more than they had been worth twenty or thirty years before. If collected in a famine year, such as 1788, when prices were exceptionally high, the dues would be worth far more than in an earlier period. If turned into money the money value would equally be substantially higher than in the earlier period. This made the demand for arrears seem especially oppressive.[63]

Although feudal dues were but a proportion of the payments the peasant had to make, this "feudal reaction," which was especially vigorous after 1780,[64] was the last straw. It was not against inequitable taxation that the peasant rebelled but against the feudal nobles. The peasant had always resented the seigniorial dues, seeing no justification for them. These were now increased, and increased at a time when land was more difficult to get, when pasture was restricted and when new and vexatious modes of payment—*viz.*, money payments—were being

[59] Kovalevsky, p. 13–14.

[60] Kovalevsky, p. 224. Marion: *Classes rurales en Bordelais*, p. 337–339 for commutation into money payments in that district.

[61] Luchitsky: *Etat*, p. 102.

[62] Luchitsky, *op. cit.* 94–5. See also Marion: *Classes rurales en Bordelais*, where arrears of 10, 20 and 29 years appear to have been frequent. He quotes the instance of 294 tenants of S. Seurin, 279 of whom were in arrears between 1764 and 1771, 216 of them for 29 years, p. 335.

[63] Sée: *La portée seigneuriale*, p. 186. Sée also speaks of an increase in the "corvées extraordinaires," that is to say that there was a growing demand for the peasants to undertake special bits of manual labour without compensation.

[64] Luchitsky: *État*, p. 102–104.

insisted on. Taxation was unjust, but one could often evade it and it was old. This was new. With taxation one could struggle along somehow, and anyway the collection was being much improved, but without land one could not live. The peasants only needed to be told by Boncerf, in the *Inconvénients des droits féodaux*, that these feudal claims were the result of theft and robbery, for their grievances to become articulate and for them to join any revolutionary party which should promise to abolish the feudal system and give them their land unfettered. Meanwhile, with the growing population and the large uncultivated areas of France, the need for more land, not merely free land, but extra land to cultivate, was becoming increasingly pressing every year, and it was getting more and more difficult with the large farm movement to obtain land or even to keep what one held. Part of the animosity felt against the Church in France was due to the fact that it held up large tracts of land in mortmain which could not be sold, and therefore the peasant who lived on or near church property could not increase his holding of land.[65-6]

Another very real grievance, but one to which justice has been done hitherto by historians,[67] was the inequality of taxation, which was paid mainly by the peasantry. The Royal taxes, of which the chief were the *taille* (réelle et personnelle), the twentieth (vingtièmes), the salt tax, and the poll tax, were all paid by the peasants—the privileged classes, consisting of nobles and officials, largely escaping, while the towns, having commuted payment, were either free or assessed very lightly. Not merely did the burden of taxation fall on the poorest class, but it was very unequally levied on those that did pay;[68] thus, while some escaped lightly, others had a double burden. The actual amount of the direct taxes would not have been heavy had it been equally distributed.[69] As it was, the peasant was afraid to improve his land, as that only meant a rise in his land tax or *taille*. The result was "lean cattle, poor implements, and bad manure, when they might have others."[70] It is only fair, however, to the admin-

[65-6] In *Les Cahiers de la Flandre maritime en* 1789, ed. Léger et Sagnac, many of the demands are for the sale of "biens de main-morte."

[67] See Taine: *Ancien Régime*. Book V, c. 2. Gomel: *Causes financières de la Révolution française*. Marion, M.: *Les Impôts directs sous l'ancien régime principalement au XVIIIe siècle*, 1910. *Cambridge Modern History*, VIII. c. 3.

[68] See Marion for the district of Bordeaux, *Rev. des Etudes hist.* p. 115–124.

[69] Marion, M.: *Les impôts directs*, p. 120. The actual amount received from direct taxation was only 190 million livres out of 475 in 1789 and would have been a light tax if evenly adjusted.

[70] Young, A.: *Travels in France*, II. p. 205.

istration under Louis XVI. to point out that the collection of the *taille* was improving. All the provincial assemblies bear witness to a diminution of the evils of collection,[71] and none of Louis XVI.'s intendants made fortunes.[72]

In addition to his feudal payments and the Royal taxation the peasant had to pay the tithe to the Church or to the seigneur, who often took it instead of the ecclesiastical powers. The tithe was a proportion of the gross produce which was taken without counting the expenses of production. It fell not only on cereals and straw, but also on wool, flax, hemp, beans, fruit, lambs, and pigs. The average of the tithe was a thirteenth of the produce, but like the taxes and the feudal dues it varied not merely in different parts of France, but even in the same parish, and from article to article. In the parish of Lacépede, for instance, an eleventh was taken from corn, a thirteenth from flax and hemp, and a twentieth from wine and millet.[73] The peasant might have borne the tithe had the money been paid to the parish priest, but it passed often to some large tithe-owner, bishop, abbé, convent, or lay person, who often neglected to fulfil the purposes for which the tithe was instituted, *viz.*, the support of the poor and the maintenance of the church. This left the support of the destitute as an additional burden on the locality. Of the total value of the tithe, which was between 225 and 250 million livres, the parish clergy only received about 36 millions,[74] the remainder was kept by those who rendered no services for it. It is scarcely to be wondered, then, that an attack on the Church accompanied the attack on the feudal nobles, when one realises in addition how vexatious the tithe was in collection and how perennial were the disputes that arose between priest and farmer over their respective shares. The clergy, whose function was the cure of souls, appeared as tax-gatherers, interested financially in the state of the harvest, poking in the stables, counting the sheaves in the field or the flax or the honey or the pieces of cloth, so that the "touching relations" of priest and peasant, so eloquently referred to in later times, resolved themselves into a series of suits by the ecclesiastical authority for payment or by the peasant for restitution of excess.[75]

In addition to these payments to King, Lord, and Church, the peasant was, up to 1776, liable to give 30 days' work annually on

[71] Marion, M.: *Collection des textes sur l'histoire des institutions.* "Les impôts directs," No. 18, 61, 62, 64 and 65. [72] Ardascheff, *op. cit.*

[73] Marion, H.: *La dîme ecclésiastique en France au XVIIIe siècle*, 1912, p. 54–72.

[74] Marion, H.: *La dîme ecclésiastique*, p. 162.

[75] Marion, M.: *Vente des biens nationaux*, pp. 5, 6. Kovalevsky, *op. cit.* p. 291.

the roads. It was then reduced to 12 days, and abolished in 1787 and a money payment substituted, except in Brittany.[76]

Taine's estimate of the burden of taxation was that out of an income of Fr.100 direct taxes took Fr.53.15, the tithe Fr.14.28, and the seigniorial dues another Fr.14.28, making Fr.81.71 in all, leaving the peasant only Fr.18.29, and out of that the salt tax and wine excise had further to be paid.[77] It is, however, generally acknowledged that this estimate is excessive, and modern writers are inclined to accept M. Marion's tentative estimate as nearer the truth, *viz.*, 14 per cent. for the tithe, the seigniorial dues 11 to 12 per cent., and the direct taxes 36 per cent.,[78] *i.e.*, Fr.60 out of 100. While this estimate is 20–21 per cent. lower, it is still appallingly high.

Nevertheless, it is fairly obvious that there was a growth of prosperity among large sections of the rural classes in France during the eighteenth century. Horace Walpole in 1765 thought the condition of the people had wonderfully improved. "The worst villages are tight and the wooden shoes have disappeared," was his verdict. M. Marion in his intensive study of the rural classes in the Généralité of Bordeaux gives many proofs of the progress in comfort and wealth of the peasants. There was a great increase in the yield of the tithe there which shows that the peasant's proportion of the produce must have grown as well. The seminary of St. Raphael, for instance, which was by no means exceptional, asserts that its tithe was worth 85 livres in 1740 and 230 in 1784. Such a rapid rise was out of all proportion to the rise in prices.[79] He points out that inns multiplied, that there was a great increase in the use of tobacco, that villagers were sending their girls to school in the neighbouring towns, and he asks how would the humblest and poorest parishes have been able to formulate grievances, demand admittance to the higher military and ecclesiastical posts, ask for liberty of the Press, and frame Constitutions in the Cahiers, if the country population had been in a state of incessant struggle against misery and hunger. "There is a manifest exaggeration in regarding the life of the peasant as a long agony."[80]

While it seems difficult to account at first sight for this growth of prosperity when one thinks of the weight of the three-fold

[76] Marion: *Impôts directs*, Ch. iv. "La corvée," p. 113.

[77] *Ancien Régime*, p. 412, n. 5. English translation.

[78] *Impôts directs*, p. 120. *Classes rurales en Bordelais*, pp. 133, 216, 235. For the tithe see Kovalevsky, *op. cit.* p. 288 and Marion: *La dîme ecclésiastique*, p. 55.

[79] *Rev. des études hist.*, 1902, pp. 460, 461.

[80] Marion, *op. cit.* p. 476. Also Wolters, *op. cit.* p. 224.

burden of taxation, royal, seigniorial, and ecclesiastical, that the peasant had to bear, one must remember that evasions and exceptions were numerous. Those who took land on the reclaimed marshes and wastes escaped, for instance. It is always the people who are aggrieved that make themselves heard, the prosperous ones keep silent, partly because they do not wish to attract the notice of the tax-gatherers, partly because they do not desire to invite competition. Agriculture was undoubtedly improving, and there was more opportunity of disposing of the produce, as the Physiocrats were bent on removing hindrances to sales. It would, however, be the richer peasant with the larger holding who would benefit. The small person with a scrap of land would have no surplus, being merely a subsistence farmer. The seigneur whose dues were taken in grain would also gain by removal of restrictions on the sale of corn, as he, too, would have a surplus. With the rise in price of 40 to 50 per cent. that took place those that had a surplus must have gained considerably. Then, too, there was an increasing export of agricultural products between 1715 and 1787. The export of raw materials rose in round numbers from 4 million livres to 14, and foodstuffs from 6 to 21. Wine rose from 27 million to 55, and cattle from 1 million to 8, tobacco from 1 million to 8.[81] According to another estimate, the export of the products of the soil had risen from 36 million livres to 93 between 1716 and 1789. Manufactured goods, however, show the larger increase. The export had risen from 15 million livres to 152 during the same period. There was also a large re-export of colonial products, which had also increased from 15 million livres to 152.[82]

Now this tenfold rise in manufactured products must have meant a larger demand for raw materials such as flax, wool, silk, and wood, much of which must have benefited agriculturists somewhere. It cannot all have been imported.[82a] The large re-export of colonial goods must equally have benefited the ports and the agricultural districts surrounding them. Again, it is possible that the little subsistence farmer did not reap as much benefit from the quickened demand as the larger peasant with a surplus. He would, however, feel as an additional grievance the increasing differentiation between himself and the richer bourgeois cultivator.[83] But after all, the peasant of the

[81] Levasseur: *Histoire du Commerce de la France*, quoting Arnould, Vol. I. pp. 517–18. [82] Levasseur: *Hist. du Commerce*, II, p. 517

[82a] Arthur Young, I. p. 502.

[83] The grievance felt at the growing differentiation between the agricultural classes in Russia is a parallel instance, see Wallace (D. M.): *Russia*.

lowest class as well as the well-to-do cultivator was continually buying land, and he must have got the money from somewhere.. He cannot therefore have been absolutely living on the margin of subsistence.

The real improvement in the condition of this class was probably due to the great spread of industry as a bye-employment in the country districts after 1762. The gilds had received a new lease of life from their reorganisation by Colbert in the seventeenth century, and were consequently very powerful in France in the first half of the eighteenth century. The tendency of gilds is to confine industry to towns where they can control or supervise the conditions of manufacture. This was true of France, though a certain amount of spinning was carried on in the country.[84]

By two edicts, 1762 and 1765, any person might engage in industrial production without belonging to a gild as long as he observed the general regulations for the conduct of industry laid down by the Government. This freeing of industry from gild control was part of the general liberal reforming movement of the time which aimed at ensuring as much liberty to the individual as possible. It was part of the same movement that was trying to free the corn trade, was attempting to abolish the internal tolls, improve the collection of the taxes, and reduce the commons to individual user.

The general result was a widespread extension of industry in the rural districts nearly all over France.[85] The pieces of cloth woven in such a poor district as Brittany rose from 118,000 in 1767 to 249,000 in 1775,[86], and these were worth between 14 and 15 million livres. We hear from time to time of large merchants employing thousands of country workers. A certain Brondès at Saint Dyé, near Blois, was said to have 2,100 country workers in his employ, 1,800 of whom were spinning, 180 winding, and 70 weaving. Goudard, another merchant-manufacturer, had in 1770 no less than 6,000 persons connected with his business scattered throughout Languedoc. In 1789 twenty-five villages were working for the manufacturers of Abbeville who were exporting cloth to the French colonies. Rouen was one of the great centres that had a wide background of country industry dependent on it. Indeed, one of the inspectors chronicles that "there are few villages in which woollen or linen cloth or stockings are not being made."[87]

[84] Levasseur: *Classes ouvrières avant* 1789, II. p. 586.
[85] Tarlé: *L'industrie dans les campagnes à la fin de l'ancien régime*, 1910.
[86] Sée: *Classes rurales*, 449.
[87] Tarlé, *op. cit.* p. 13. Kovalevsky, II. *Les Villes*, p. 170 *ff*.

Arthur Young noticed this prevalence of domestic industry and considered that it was harmful to agriculture,[87a] as the people were so occupied with their industrial bye-employments that they did not apply themselves to increasing the agricultural yields, and it created a scarcity of labour for intensive farming. This probably lowered the pace of agricultural improvement. The Government favoured the extension of this country industry, and in 1779 relieved it of all restrictions. The country workers were not even obliged as heretofore to conform to the general regulations laid down by the Government. This was only acknowledging an existing state of affairs, since industry had become so widespread that inspection was impracticable. Some of these peasant workers, as in England, sold straight to the consumer; the majority appear to have worked to order for a merchant whose agents collected the goods. Sometimes the peasants supplied the raw material and delivered over the finished article made on their own looms; sometimes the agent or the merchant supplied the raw material and, more rarely, the looms. We find all degrees of dependence and independence.

Into this prosperous hive of country industry, with its growing export, the treaty of 1786 with England came as a sort of thunderclap. The Eden treaty was of such an extraordinarily liberal nature for its time that most of the import duties heretofore on a prohibitive level in both countries, were reduced to between 10 and 12 per cent.[88] *ad valorem.*

This treaty came into operation in May, 1787, and was almost immediately followed in France by a great industrial crisis. English goods, which had always had a certain vogue among the rich in France, now flooded the market. The import, which had been 24 million livres in 1784, rose to 58½ million in 1787, of which 33 million were manufactured goods. By 1788 the imports of English goods had risen to 63 million livres and were 58 million in 1789. The French exports to England, on the other hand, declined somewhat, being 37½ million in 1787, 34 in 1788, and 36 in 1789.[89]

This large import of foreign goods coincided with a shortage of raw material in France so that while some merchants ceased to give out orders because they could not give out raw material, others ceased to place orders because they could not sell the goods made, the English goods having ousted French products. The

[87a] Vol. I. p. 568.
[88] Levasseur: *Histoire du Commerce*, I. p. 540.
[89] Levasseur: *Hist. du Commerce*, I. p. 542.

result was an appalling industrial crisis,[90] the effect of which was compared to the revocation of the Edict of Nantes.

From all the big manufacturing centres, Rouen, Elbœuf, Sedan, Carcassonne, the tale is the same—a diminution in the number of looms, workmen emigrating, merchants ruined. The intendants send in requisition after requisition for money for poor relief, and in spite of the desperate condition of the finances no less than Fr.1,500,000 were sent by the Government at the end of 1788 and the beginning of 1789 to relieve the distress. The inspectors of manufactures considered that by the end of 1788 there were 200,000 workmen unemployed in the towns, and this crisis had then lasted a year and a half. Many had, however, emigrated.[91]

While the Eden Treaty was blamed for the depression, there were many other contributory causes. There was a failure, for instance, of the silk-worm and a scarcity of raw silk in the year 1787–1788.[91a] The French clip was not sufficient for the growing cloth industry, and Spanish merino wool was a necessity to mix with the native wool to produce good quality cloth. There was increasing difficulty, apparently, in obtaining this, as the English also required Spanish merino wool, and were most expert in obtaining it. They kept agents at Bilbao to purchase it, and were able to ship direct to England, while France was hampered by defective transport.

Moreover, in certain lines of trade the English were ousting the French, especially in the Mediterranean. They supplied a better cloth at a cheaper price, and thereby ruined the cloth trade of Carcassonne,[92] which depended on the Spanish and Mediterranean market. This would have happened, treaty or no treaty, but it was not obvious to the people at the time. The workmen considered the Government a sort of economic Providence to which they must address themselves if they wished for work or better wages, in the same way as peasants would pray to God for a good harvest. When anything went wrong the Government was blamed. Hence the crisis was considered to be the fault of the Government, which with its liberal ideas had abandoned the traditional policy of prohibition.

Already smarting under the increasing weight of the seigniorial dues, incensed by the enclosure of commons, eager for more land and seeing no prospect of getting it, and now deprived of the bye-

[90] Schmidt, C.: "La crise industrielle de 1788" in *Revue historique*, Vol. 97 1908, p. 78 ff.
[91] Schmidt. *op. cit.* p. 91.
[91a] Schmidt, *op. cit.* p. 89.
[92] Kovalevsky, *Les Villes*, p. 731.

employment, is it to be wondered that the French peasant was willing to support the middle classes in a revolution? The town artisan, who had felt the crisis acutely, was willing to join as well. Matters were precipitated by the fact that 1788 was a year of great food scarcity, and ended in one of the coldest winters known for the century, when even the port of Marseilles froze.

Unemployment, lack of food, and bitter weather gave point to the other grievances. When the country was asked to state its views in the *Cahiers des doléances* they became articulate. While the middle classes pinned their faith to a constitution and financial reform, the agricultural classes, by far the most numerous, looked to the abolition of seigniorial rights and more land as the remedies for their troubles.[92a].

On August 4th, 1789, at an excited meeting of the Estates General, the feudal dues were partially abolished. Those that remained were to be surrendered for a money compensation. The peasants refused to pay any compensation, and finally, in 1793, the remnants of seigniorial power were simply swept away. As at the same time the peasant ceased to pay his tithe to the Church, and the prices of food rose, he was in a very favourable position if he were a proprietor with a surplus. If he were a tenant the absence of the tithe often meant a higher rent, but it did mean that even the tenant gained by the abolition of feudal payments, and where he paid his rent in depreciated assignats, the increase of rent was not as large as it seemed.[93] The sale of the national lands enabled all those who had capital to increase their holdings at a very cheap rate, since the land was paid for in depreciated paper money. The huge land sales also gave the town bourgeois the chance to acquire large farms and brought business methods into agriculture.[94] The Napoleonic road system enabled far greater transferance of agricultural products to take place, and gave an incentive to agricultural improvement.[95] It remained however, for the nineteenth century to see intensive agriculture carried out in France.[96]

It is interesting to notice the similarity between the Russian revolutions of 1905 and 1917 and the French revolution of 1789.

[92a] Wolters, *op. cit.* p. 276 *ff*.

[93] Sagnac: "La division du sol pendant la Révolution et ses conséquences" in *Rev. d'hist. mod. et contemp.*, Vol. V. 1903–4, p. 464.

[94] Luchitsky: *Vente des biens nationaux.*

[95] Levasseur: "Du progrès de l'agriculture française dans la seconde moitié du XVIIIe siècle" in *Revue d'économie politique*, 1898.

[96] *Société Centrale de l'Agriculture Mémoires.* There was a lack of agricultural labour to carry out improvements as so many men were taken for the army between 1793 and 1815. Sagnac: "Division du sol," *op. cit.* p. 470.

In both cases the fundamental difficulty was the pressure of population on the available land. The peasants in both countries thought the problem would be solved if they could get the land of the wealthy classes. The process of getting more out of the land they held was hindered in both countries by the lack of capital and knowledge. In both countries the upper classes possessed that knowledge, and were slowly trying to carry out improvements in methods of farming. The movement had gone further in Russia, for between 1905 and 1914 provision had been definitely made for re-sorting strips, and the land was rapidly being divided into compact farms. The land of the nobles and the Crown was also being sold gradually through peasant banks to the cultivators. The question of feudal payments did not much affect Russia in 1905, the peasants having nearly paid off the money compensation for the loss of their services. Germany, however, under the leadership of Prussia, was able to carry through intensive farming before the pressure of the population on the available land was so crucial as to lead to an irresistible demand for more land whereby the peasant might live. The situation was also relieved by the large emigration to the United States after 1848. The German peasant learnt from agrarian example, from State tutelage, and from co-operation that more might be got out of the land he already held, while the Raffeisen banks gave him the credit which the Russian and French peasant could not obtain at the time when their population question in relation to food became most pressing. The Russian Government was, however, like the French in 1789, just a little too late.

LILIAN KNOWLES

THE GOLD POLICY OF THE UNITED STATES

PRIOR to the enactment of the Federal Reserve Law in December, 1913, the banking system of the United States lacked unity and definite purpose. Approximately 7,600 national banks were chartered under one law—a federal law—without any central authoritative body to guide their activities or to assist them in conserving the interests of the banking world or of the nation as a whole, while even greater lack of unity and purpose characterised the 25,000 State banks chartered under the various laws of forty-eight different States.

With the nation's gold hoardings scattered among these 32,600 banks, there could be no control exercised in preventing an over-expansion of loans on new additions to our gold stock, in shifting supplies of gold about the country so as to meet pressing local needs, or in effectively regulating the gold flow in connection with foreign trade. The situation was at complete variance with accepted European practices. Nor, on the other hand, were satisfactory means provided for the creation of an elastic currency which might in times of financial stringency assist in concentrating the country's gold holdings and in conserving their use. In times past banks had been compelled to resort to the use of clearing-house loan certificates issued by the local clearing-houses to their members upon the deposit of proper collateral, such as stocks, bonds, commercial paper, etc. These were employed solely, except in 1907,[1] in the settlement of clearing-house balances. As a result of the crisis of 1907, Congress passed the Aldrich-Vreeland Law, which enabled national banks to form "national currency associations" and to issue through them the so-called "emergency currency" secured by bonds other than those of the United States Government and commercial paper. Conditions resulting from the declaration of war in August, 1914, necessitated the amendment of this law so as to facilitate the issuance of this emergency currency, and during the next few months forty-one national currency associations issued $384,485,000

[1] In 1907, fifty-one clearing houses issued $255,536,300 clearing-house loan certificates for general circulation.

of it. At the same time twelve clearing-house associations issued $211,778,000 loan certificates, but for use only in clearing-house transactions.

These limping half-way measures were most unsatisfactory in every regard, and it was, in part, for the purpose of improving the conditions mentioned that the Federal Reserve system was created.

The Federal Reserve Law, as originally enacted in 1913, made certain definite reforms possible in the above connections, but subsequent amendments to that law and the enactment of other measures by Congress enabled the Federal Reserve Board, co-operating with the Secretary of the Treasury, to be most active, and successfully so, during the late war in concentrating the nation's store of gold, in conserving its use, and in controlling its outflow. The following discussion is concerned with the methods employed and the results secured.

One of the most important changes made by the Federal Reserve Law that greatly assisted in improving the situation had to do with the reserve requirements of the member banks, first, as to their amount, and, secondly, as to their places of deposit.[1] Under the national banking system no distinction had been made between demand and time deposits. National banks had also been divided into three groups, depending primarily upon the size of the city in which the bank was located. New York, Chicago, and St. Louis were classed as "central reserve" cities; about fifty other cities were known as "reserve" cities; while the remainder were designated "country" cities. National banks in the first group had been required to keep on hand a reserve of 25 per cent. against all deposits; in the second group the same reserve had been required, but one-half of it could be deposited with national banks in cities of the first group; while, in the last group, a reserve of 15 per cent. had been required, but three-fifths of it could be deposited in national banks located in cities of the other two groups. As can easily be seen, this system of reserves inevitably encouraged the piling up of bank reserves in cities of the first group, and primarily in New York.

The Federal Reserve Law, however, distinguished between demand and time deposits, and also greatly reduced the reserve requirements for all three groups. Reserves against demand deposits were fixed at 18 per cent. for member banks in central

[1] All national banks were compelled to join the system or give up their national charters, while State banks were permitted to become *members if they desired* to do so.

reserve cities, at 15 per cent. for reserve cities, and at 12 per cent. for all other cities, while reserves against time deposits in all groups were fixed at 5 per cent. This change in the reserve requirements released approximately $465,000,000 (to a considerable extent gold) previously held for that purpose. In order to assist in concentrating the country's gold hoardings, the Federal Reserve Law required member banks to keep their reserves in only two places, *i.e.*, part in the Federal reserve bank of the district in which the member bank was located, and part in their own vaults, the exact proportions being fixed by the provisions of the law. Three years were given in which to shift from the old system of scattered reserves to that of more concentrated reserves. Before the three years had passed, however, the situation had changed. World-war conditions resulting in huge imports of gold, in greater demands upon our banking system for extension of credit, and in the possibility of an unrestricted gold outflow at the conclusion of the war or possibly before, made the revision of certain features of the Federal reserve system not only possible, but also imperative. These changes were effected by the amendments of June 21st, 1917. Reserve requirements were thereby further reduced from 18 to 13 per cent. for central reserve city banks, from 15 to 10 per cent. for reserve city banks, and from 12 to 7 per cent. for country city banks, while for all groups the reserves against time deposits were reduced from 5 to 3 per cent. Another amendment compelled all member banks to keep their reserves wholly in the Federal reserve bank of their respective districts, thus bringing about, for the first time in the history of banking in the United States, a partial concentration of reserves, but only, of course, for member banks. A third amendment permitted non-member banks to avail themselves of the facilities of the Federal reserve check clearing and collection system by opening accounts with the Federal reserve banks for exchange or collection purposes. Within sixty days after these changes had become effective the gold and lawful money[1] held by the Federal reserve banks had increased $487,955,000, while their holdings of free gold, *i.e.*, the surplus over required reserves, had increased approximately $300,000,000.

Attempts were also made through other amendments, by the solicitations of the Federal reserve banks, and by Presidential proclamation, to induce State banks to become members of the

[1] Lawful money is any money that may be used by member banks for reserve purposes, and excludes only National bank notes, Federal reserve bank notes, and Federal reserve notes.

Federal reserve system and thus assist in the mobilisation of gold holdings through the concentration of reserves in the Federal reserve banks. Up to January 1st, 1919, approximately 900 State banks, with total resources of over $7,000,000,000, had entered the system, thus giving the Federal reserve system control over about 80 per cent. of the commercial banking resources of the nation.

The country's gold was also conserved by other measures, such as officially requesting that gold coins be not used for gifts, that gold coin counting machines be not employed because of the resulting abrasion, etc., while the Government itself even went so far as to cease the minting of gold coins in October, 1917. Typical of the whole-hearted spirit of co-operation with which the efforts of the Federal Reserve Board were met was the action of the Treasurer of the State of California, who in February, 1918, in face of law and long-standing custom, agreed to accept the cashier's checks of the Federal reserve bank of that district, or Federal reserve notes instead of gold in payment of taxes, thus releasing to that Federal reserve bank several millions of gold which would otherwise have been held as so much "dead" metal in the State's vaults.

To remedy certain of the evils in the national banking system, to which reference has been made above, the Federal Reserve Law authorised the Federal reserve banks to issue two kinds of paper money, *i.e.*, Federal reserve notes and Federal reserve bank-notes. The latter are secured by United States bonds or other forms of indebtedness of the Federal Government and were not designed to supply any element of elasticity to our monetary system. They are supposed gradually to replace the national bank-note circulation. The law permits any national bank to retire any or all of its bank-notes until December 23rd, 1935. In order to provide a stable market for the sale of the Government bonds with which the national bank-notes are secured, and to induce, not to compel, the banks to retire their circulation, the law permits the Secretary of the Treasury, if necessary, to order the Federal reserve banks in the aggregate to purchase annually not more than $25,000,000 of these bonds at par plus accrued interest. The Federal reserve banks from time to time purchased their required quota of Government bonds, but it was not until March, 1916, that the first Federal reserve bank-notes were issued by the Kansas City Bank. The Dallas Bank followed in September. Each had issued approximately $6,000,000 of this new kind of bank-note. By December of that year, however, they had

all been retired from circulation, but not cancelled, although during the year the national bank-notes in circulation had decreased \$44,511,968. In 1917 the Kansas City Bank again put its \$6,000,000 of Federal reserve bank-notes into circulation along with an additional \$2,000,000, converting them into gold and thereby increasing its gold holdings, although the Federal reserve bank-notes had not been originally devised with any idea of their being used in that capacity. During 1918 certain developments made it possible for them to be again so used.

While the war was on the United States was faced with the necessity of paying for goods imported from the Orient, especially from India. This unfavourable balance of trade, it was pointed out, could easily be met by payments of silver rather than of gold, provided the necessary silver could be obtained. Acting at the request of the Treasury Department, Congress, on April 23rd, 1918, passed a law permitting the breaking up of not to exceed 350,000,000 silver dollars, which were then being held in the United States Treasury as security behind an equal amount of silver certificates. This silver was then to be sold at a minimum price of \$1.00 per fine ounce to American importers for remittance to Oriental countries.[1] Federal reserve banks were at the same time called upon to issue Federal reserve bank-notes to take the place of the retired silver certificates, such notes to be secured by United States bonds, or, if desired, by one-year Treasury notes, or United States certificates of indebtedness, the maturity of the latter to be extended from time to time as the Secretary of the Treasury deemed necessary. The retirement of the silver certificates and the breaking up of the silver dollars proceeded rapidly. It is interesting to note, however, that the Federal reserve bank-notes were not issued anywhere nearly as rapidly as the deficiency in the country's currency was created by the retirement of both silver certificates and national bank-notes. Thus during 1918 the amount of Federal reserve bank-notes in circulation increased as follows: January 1st, \$8,000,000; April 19th, \$7,895,000; June 14th, \$10,000,000; August 30th, \$20,000,000; October 10th, \$52,031,000; December 6th, \$92,799,000; December 27th, \$117,122,000; January 3rd, 1919, \$120,267,000. During the same time, however, \$187,984,764 silver certificates had been retired. National bank-note circulation had also decreased \$445,775,000 from October 31st, 1914, the date nearest the actual establishment of the Federal reserve system for which data are available, to December 27th, 1918, the date of the latest report of

1 On August 10th 1918, the price was raised to \$1·01½ per fine ounce.

the U.S. Comptroller of Currency, although during that time approximately 200 new national banks had been organised.[1]

The second kind of currency authorised by the Federal Reserve Law, *i.e.*, the Federal reserve notes, have been of tremendous service to the country in connection with gold mobilisation, although devised originally only as a means of supplying the needed element of elasticity to our monetary system. The Federal Reserve Law of 1913 provided that the reserve notes should be secured by 100 per cent. collateral in the shape of commercial paper which had been rediscounted by the Federal reserve bank, and by 40 per cent. of gold reserve. In spite of this explicit provision, however, the Federal reserve banks, almost immediately upon organisation, began to issue these notes against 100 per cent. gold security, continuing to do so until June, 1917. They justified their action on the ground that the step in question was deemed necessary in order that the mobilisation of the country's gold might be aided. As a result of the issuance of the Federal reserve notes under the conditions mentioned, and because of other matters already discussed above, especially those relating to the changed requirements concerning the amounts and the location of the reserves of the member banks, the gold holdings of the Federal reserve banks increased from $230,912,000 on December 4th, 1914, to $1,050,890,000 on June 15th, 1917. On June 21st, 1917, Congress amended the reserve law so as to authorise the issuance of reserve notes against 100 per cent. of gold or gold certificates. The amendments also permitted the Federal reserve banks to substitute rediscounted commercial paper for the gold so held, provided the collateral never exceeded 60 per cent. of the face value of the notes issued, and also provided the remaining 40 per cent. should always be gold or gold certificates. Thus a Federal reserve bank with $100,000,000 reserve notes backed by $100,000,000 gold could, by substituting $60,000,000 rediscounted paper and retaining $40,000,000 of the gold security, still have $100,000,000 reserve notes in circulation, thus freeing $60,000,000 gold for use elsewhere, or it could add $150,000,000 rediscounted paper to its original $100,000,000 gold and thus be able to put $250,000,000 reserve notes in circulation.

As noted above, the Federal reserve notes were, until June, 1917, secured by practically 100 per cent. of gold, and consequently played no part in any inflation that may have taken place

[1] From what has just been stated, one must not get the idea that the *per capita* circulation in the country has decreased as a result of the withdrawal of the silver certificates and the National bank notes. In fact it had rather noticeably increased from $35 in 1914, to $55·76 on January 1st, 1919.

up to that time. The Federal reserve banks were very active in paying out reserve notes for gold and gold certificates, thus aiding greatly in the mobilisation of our gold holdings. Strong pressure was brought to bear upon banks, both State and national, and liberal inducements were held out to them to exchange their gold and gold certificates for reserve notes. The public was also urged to accept and use the reserve notes in all business transactions. Especially in the Western States, where gold still remained the current medium of exchange, was a vigorous appeal made to the banks, and through the banks to the public, that they "patriotically" accept the reserve notes and thus assist the Federal reserve banks in their task of gold mobilisation. This policy was almost universally successful, and gold disappeared from general circulation.

Federal reserve notes and Federal reserve bank-notes are not classed as "lawful money" by the Federal Reserve Law, and thus cannot be used by member banks for reserve against deposits. At first, also, State legislatures would not authorise their use in that connection by State banks, but as the situation grew more serious they changed their attitude and enacted legislation permitting their use for reserve purposes, thereby enabling the State banks and trust companies to exchange their gold for these notes, primarily for the reserve notes, and thus to co-operate in the task of maintaining an adequate gold basis for our rapidly-growing credit structure. As a consequence of that situation, $1.00 of gold, with the addition of $1.50 of rediscounted commercial paper, could be used by a Federal reserve bank as security for the issuance of $2.50 of Federal reserve notes, and if a State bank used these notes as reserves against its deposits, the dollar of gold would thus support approximately $10 of credit. This may appear to be an undue and possibly an unsafe extension of credit upon such a slim gold basis, but it should be remembered that the Federal reserve notes are obligations of the United States Government, although issued by the privately-owned Federal reserve banks, that they are secured by at least 40 per cent. of gold and 60 per cent. of rediscounted commercial paper, and that they are a first lien upon the assets of the issuing Federal reserve bank, a lien upon the assets of the bank that rediscounted the commercial paper at the Federal reserve bank, and a lien also upon the assets of the drawer of the commercial paper. More adequate security need not be required.

Almost immediately after the passage of the 1917 amendments, which, as has been noted, greatly reduced the amount of

commercial paper required as collateral behind the reserve notes, the situation changed greatly, not only as to the amount of the reserve notes issued, but also as to the extent of the security furnished. The amount of reserve notes in actual circulation increased from $491,615,000 on June 15th 1917, to $1,246,488,000 on December 28th, 1917, to $1,677,951,000 on June 21st, 1918, to $2,555,215,000 on November 22nd, 1918, and to $2,648,605,000 on January 3rd, 1919. At the same time the gold security held behind them decreased rapidly, being respectively 94.4 per cent., 64.3 per cent., 58.9 per cent., 50.8 per cent., and 52.8 per cent. on the dates mentioned.[1] It must not be overlooked, however, that the amount of rediscounted commercial paper held against these notes *in excess* of the sum legally required equalled $1,122,000 on June 15th, 1917, $46,804,000 on December 28th, 1917, $279,517,000 on June 21st, 1918, and $406,946,000 on November 22nd, 1918. Similar data are not available at this date for January 3rd, 1919.

As a consequence of the measures above described, not only was the total gold stock held by the Federal reserve banks increased from $1,050,890,000 on June 15th, 1917, to $1,924,373,000 on June 21st, 1918, and to $2,092,694,000 on January 2nd, 1919,[2] thus representing the strongest collection of commercial banking assets in the world, but by means of the Federal reserve notes the gold resources of the reserve system were made to do much greater service than would otherwise have been possible. It is estimated that the Federal reserve banks now hold more than two-thirds of the monetary stock of gold in the country.

Since the signing of the armistice the amount of Federal reserve notes in actual circulation has noticeably decreased. Thus, within three weeks after December 27th, 1918, at which time they had reached their maximum amount, they fell from $2,685,244,000 to $2,512,973,000. It has also been noticed that large amounts of gold and gold certificates have been brought from their hiding-places by those who had boarded them for possible needs during the war. This reappearance of the hoarded gold may also assist the Federal reserve banks in their further accumulation of gold, if in the future they deem it advisable or necessary to continue their past polities in that regard.

The events which followed in quick succession upon the

[1] The lowest ratio of gold reserve held against reserve notes occurred on October 10th, 1918, when it fell to 49·6 per cent.

[2] On January 17th, 1919, the Federal reserve banks held $2,102,557,000 gold.

declaration of war in 1914 brought the financiers of the United States face to face with the necessity of properly safeguarding the country and its financial interests against the dangers of an excessive gold drain. The complete derangement of foreign exchange operations, the dumping of foreign-owned stocks and bonds upon the American markets, and the necessity of paying almost immediately an indebtedness abroad of approximately $150,000,000 in the face of the then existing European moratoria, all made inevitable the tremendous exportation of gold during the first few months of the war.[1] In July and August, 1914, gold to the extent of $51,795,041 left the country, exchange rates rose to unheard-of levels, and the situation became panicky in the extreme. To aid in meeting the American crisis, the Bank of England agreed to accept gold shipped to Ottawa for its account with the Minister of Finance and to give credit on its London books for the sums involved. A gold pool of New York bankers was also formed to take care of New York's maturing obligations held abroad, totalling about $80,000,000. This pool subsequently shipped approximately $35,000,000 gold to Ottawa. On September 4th, 1914, the Secretary of the Treasury called a meeting of bankers and clearing-house representatives to formulate a plan of relief for the country as a whole. The result was the formation of a National Gold Pool, which established a gold fund of $100,000,000, subscribed to by State and national banks throughout the country. The amount was over-subscribed, and but one call (for $25,000,000) was made. Shipments of gold to Ottawa were continued until the shifting currents of trade and the lapsing of the European moratoria brought exchange rates back to normal. In time the gold flow turned in our favour, as is clearly disclosed by the following table:—

	Imports.	Exports.	Excess Imports.
Aug. 1 to Dec. 31, 1914 ..	$23,253,000	$104,972,000	$81,719,000
Jan. 1 to Dec. 31, 1915 ..	451,955,000	311,426,000	420,529,000
Jan. 1 to Dec. 31, 1916 ..	685,745,000	155,793,000	529,952,000
Jan. 1 to Dec. 31, 1917	553,713,000	372,171,000	* 181,542,000
Jan. 1 to Nov. 10, 1918 ..	58,654,000	38,569,000	20,085,000
		Total excess imports ...	$1,070,389,000

* Excess exports over imports.

In 1917, however, other nations, primarily neutral countries, began taking gold from us in dangerously large quantities, as is evidenced by the fact that our gold exports increased from $155,793,000 in 1916 to $372,171,000 in 1917. Inasmuch as it was felt that there was a possibility that some of that gold was

[1] Gold exports during June, 1914, had reached $48,107,000.

finding its way into the hands of our enemies it was deemed advisable that the Government take steps towards controlling the situation. Consequently, on September 7th, 1917, the President issued a proclamation forbidding the exportation of all bullion, coin, or currency, except in accordance with regulations imposed by the Secretary of the Treasury. The administration of the regulations in question was placed by the latter in the hands of the Federal Reserve Board. Applications to export were passed upon by the Federal reserve bank of the district in which the application was made, subject, however, to the approval of the Federal Reserve Board and the Secretary of the Treasury. The Board subsequently established a "Division of Foreign Exchange" under the direction of an able administrator, and drew up a very complete set of regulations covering the exportation of coin, currency, and bullion.

At first practically no restrictions were placed upon the exportation of Canadian gold and currency other than gold. Applications to export silver bullion, American silver coin, and American paper money, excepting only gold and gold certificates, were usually granted. Especially was silver allowed to flow freely to the Orient as a means of paying Oriental balances, although, on August 10th, 1918, the Treasury Department announced that export licences for silver would thereafter be "granted only for civil or military purposes in connection with the prosecution of the war." The Board also took pains to prohibit the "earmarking" of gold for foreign account in the United States. The passage of the "Trading with the Enemy Act" (October 6th, 1917), and a subsequent proclamation by the President (October 12th), further extended the control of the Board and the Secretary of the Treasury over the exportation of bullion, coin, and currency without materially changing the machinery or the regulations already in effect. On January 26th, 1918, the President issued another executive order, compelling all dealers in foreign exchange to secure a licence from the Federal Reserve Board.

During November, 1917, certain branches of trade found it necessary to request the release of considerable amounts of gold. Especially was this true of Mexico and Canada. A conference was held with Canadian bankers, which resulted in the Federal Reserve Board agreeing to release $25,000,000 gold prior to July 1st, 1918, in amounts not to exceed $10,000,000 in any one month. This arrangement assisted greatly in stabilising the exchange rates between the two countries. Applications for

shipments of gold to Mexico were granted only for government account and only when shipments of gold were shown to be necessary to bring certain essential products into the country.

The Indian situation, where dollar exchange, standing at 19.42 per cent. discount in September–October, 1917, was causing serious thought as to what means of satisfactory payment could be provided without resorting to the shipment of gold, was met in part by the measures discussed above. At different times, also, the Secretary of the Treasury made arrangements with representatives of the Indian Government whereby credits aggregating 20,000,000 rupees were provided and allotted by Federal reserve banks to importers according to their needs. Adverse exchange rates, with the dollar greatly at a discount in neutral countries, made it pressingly urgent that steps be taken to bring matters back to normal, so as to prevent the outflow of gold. Consequently, in January, 1918, an agreement was entered into with Argentina, whereby funds up to $40,000,000 were deposited with the Federal reserve bank of New York as a basis for furnishing exchange on that country, the Argentine Government agreeing to pay in Argentina the corresponding amount of pesos at a discount of 3 per cent. below the par of exchange. The United States agreed to ship gold at the end of the war if conditions existing at that time made it necessary to do so. An additional credit of $60,000,000 was later provided. A similar agreement, limited to $5,000,000, with permission to extend it to $20,000,000, was made with Bolivia, while the drafting of like agreements was taken up with Chile, Peru, and Uruguay. In the case of Spain a group of Spanish bankers were induced to open a group credit with certain American bankers to the extent of 250,000,000 pesetas, while, in case of, Switzerland, an arrangement was made with the Government of that country whereby an amount of Swiss currency, sufficient for the needs of the American Expeditionary Forces was provided at par of exchange.

The results of these arrangements were especially gratifying. The discount on dollar exchange in foreign countries, particularly in neutral markets, was materially reduced, in some cases wiped out entirely, thus rendering unnecessary the shipment of gold. Gold exports dropped, and the immediate dangers of a serious gold loss were indefinitely postponed.

With the return of peace it is impossible accurately to predict future developments. Already various restrictions on exchange dealings have been removed by the Government, and the promise made that further privileges will be accorded from time to time

as conditions warrant. Regardless of what happens, however, the war has taught us many valuable lessons that will be of inestimable service to us in the future. We have devised methods for concentrating the country's gold holdings in the Federal reserve banks and have learned how to use them to an advantage. We have developed the machinery for handling the intricate problems of foreign exchange and gold flow, and have tested it out under the most adverse circumstances. Undoubtedly the coming months, with their ebb and flow of trade, the use of arbitraging practices, and the complete removal of governmental restrictions upon exchange operations, will bring a gradual readjustment of the world's gold supply among the various countries; but it is seriously questioned whether the gold flow that will necessarily follow such readjustment will at any time result in the disturbances with which business, commerce, and finance were affected during the early days of the war before proper methods had been devised for handling the serious situation that had developed.

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SOME ASPECTS OF WAR FINANCE.

THE use of monetary terms in discussions of public finance, though convenient, tends to obscure the essential realities which they represent. It is usual to say that the Government requires so many millions of money for the prosecution of the war. What the Government really needs is not money, but goods and services.

These goods and services are provided mainly from the country itself, and to some extent from other countries.

The country possessed at the beginning of the war a vast store of accumulated material wealth in the shape of buildings, plant, railways, ships, stocks of consumable goods, foreign investments, etc. This may be termed the national capital. Some portion of this capital has been consumed or transferred to other countries in the course of the war, but the bulk of it is still intact, and of this a considerable quantity is being temporarily utilised for war purposes.

The greater part, however, of the goods furnished by the country for the war, and the whole of the services, have been called into being in the course of the war. That is to say, they have been contributed out of the growing resources of the country or out of what may be termed the national income.

The truth of this proposition is evident enough when the question is viewed in its proper light as one of the consumption of goods and services. But if it were considered as a matter of money, an opposite conclusion might be drawn, owing to the misleading fact that a large amount of fictitious money capital has been created for financing the war, by processes which are discussed later.

The goods and services provided from foreign sources have been partly exchanged against portions of the country's wealth, both capital and income, partly supplied on pure credit, in which latter form they constitute a real additional resource.

The most important of the financial tasks of the Government consists in the employment of suitable methods for obtaining possession of the goods and services required from the country.

There are two governing considerations which bear on the

choice of methods for obtaining the goods and services in question.

The first is that a war such as the present demands the maximum of national effort. In other words, the requirements of the Government for goods and services suitable for the prosecution of the war are limited only by the quantity which it is strictly necessary to retain for the maintenance of an efficient level of subsistence for the population.

The second is that the goods and services absorbed for the purposes of the war cannot be replaced during the war, and that only a small proportion, in the shape of stocks of surplus goods and borrowed material, can be replaced after the war. The bulk of the wealth created by the national effort for war purposes is destroyed in the course of the war.

It would logically follow from these considerations that each individual should be called upon to contribute to the utmost extent of his ability in goods and services without expectation of return.

Such ideal conditions, however, could hardly be realised except in a socialist community, where the national capital and the organisation of distribution are in the hands of the State.

In dealing with a community where most of the national capital is in private hands, and where the economic fate of individuals depends on their success in realising gain and avoiding loss, the exaction of contributions for the war must be so contrived as to preserve the existing incentives to effort.

Thus if every person engaged in productive enterprise were required to surrender absolutely all that he gained beyond a certain fixed limit, he would be deterred from putting forth efforts which could be of no benefit to him, and might possibly leave him with a loss. He would, moreover, not be deterred from waste or extravagant expenditure which did not reduce his gains below the limit allowed to him.

Similarly, with respect to accumulations of material wealth in private hands, if the Government were to select from them and confiscate all the portion suitable for national purposes, this action would not only operate as a deterrent to further effort, but would penalise those whom accident had led to hold their wealth in this form, and cause them serious injury.

In dealing, then, first, with the incomes of individuals, that is to say, with the shares which they respectively acquire in the general total of goods and services produced in the course of the war, it becomes necessary, in the interest of production and

economy, to allow them to retain a portion of every increment of income in excess of the minimum which may be considered as strictly necessary for subsistence in each case. In fiscal terms, taxation will bear some proportional ratio, whether fixed or graduated, to income.

In thus allowing individuals, however, a right to more than their due share of goods and services, it is highly expedient to prevent them, if possible, from exercising that right at a time when it is a matter of vital necessity for the nation to employ the whole of its available resources in the prosecution of the war.

This object might be attained if individuals were required to make over their rights to the Government for a term of years. This is the device of a forced Government loan applied to surplus of income.

The same device is applicable to surplus capital. Persons possessing capital in the shape of goods or foreign investments which may be diminished in the course of the war by sale or Government requisition would receive Government bonds in its place.

By these means the portion of the incomes of individuals which remains at their free disposal would be reduced to the minimum considered indispensable, and at the same time they would be compelled to divert to the service of the State, directly or indirectly, their surplus stocks of material wealth.

This, however, is not all. It would still be necessary to prevent individuals from acquiring rights to goods and services by means of the machinery of banking and credit.

Attempts in this direction might be made in a variety of ways, such as by selling bonds of the Government loan, by borrowing on this or other property, or by drawing on bank deposits. This point is discussed in fuller detail later.

It would therefore be necessary to impose some degree of restriction and control on transfers of and loans on property and banking operations generally.

Assuming that, when worked out in detail, these and other incidental difficulties can be more or less successfully met, the combination of taxation with forced loan appears to be the system best adapted for securing for the Government the greatest possible share of the national resources in the case of a war of the present magnitude.

The Government has, however, followed the traditional course of procuring its resources by means of taxation coupled with voluntary loans. It has also, in the course of the war, borrowed a certain quantity of foreign securities from their holders,

restricted the investment of capital abroad and in new issues at home, instituted control over the distribution of certain essential commodities, and taken various other measures intended to prevent improper dissipation of the national resources or to divert them into useful channels.

It has not, however, imposed any restrictions on the market in Government loans or other home securities or most kinds of property, nor on banking operations generally.

The result of this policy has been both to leave in the hands of the people rights to a larger share in the national income than that which is strictly indispensable, and to permit them to supplement that share by means of the machinery of banking and credit.

At the same time, the active propaganda instituted by the Government on behalf of voluntary loans has caused this machinery to be employed very extensively to furnish the Government with command over goods and services The methods by which this result has been brought about require some detailed explanation.

The amounts standing to the credit of depositors in banks constitute rights of those depositors to general purchasing power, that is to say, claims to goods and services, which may be exercised at any moment by the holders.

The banks, however, relying on the improbability of these rights being exercised to any great extent at one time, conduct a profitable business by transferring them temporarily to others, by means of short loans against merchandise and other security, and by employing them in the purchase of negotiable securities, keeping a small reserve in legal-tender currency for the satisfaction of depositors who may demand it.

Depositors draw on their accounts, that is to say, they exercise their claims, to some extent continually from day to day. But the persons to whom they transfer these claims in the course of business usually re-transfer them to the same or some other bank. In banking parlance, cheques drawn on a bank are usually paid in by the holders to the credit of their accounts in the same and other banks, without the use of coin or other legal-tender currency.

The claims of depositors may thus be satisfied to practically any extent, and used as purchasing power for a multitude of transactions, provided that they do not take the form of demand for currency, without obliging the banks as a whole to reduce their loans or investments.

This vast fund of latent purchasing power, at the disposal of depositors, is susceptible of further expansion by the faculty of the banks to make fresh loans.

Just as the rights of depositors may be exercised to any extent without affecting the position of the banks as a whole, provided currency is not demanded, so, subject to the same condition, the banks may create fresh rights in favour of borrowers to an extent limited only by the amount of security which may be offered and their own discretion. The cheques drawn on a bank in virtue of its loans will be paid in by the holders to their accounts in the same and other banks, and the only change in the aggregate position of the banks will be an enlargement of their loans on one side balanced by an enlargement of their deposits on the other.

The possibility, however, that currency will be demanded is always present, and for this reason banks under normal conditions work with a constant eye to the necessity of keeping their small reserve of currency up to the ratio of their deposits which they consider compatible with safety. This consideration operates as a check on the undue expansion of loans, which must lead to a diminution of the ratio of reserve of currency to deposits either by a fall in the former or by a rise in the latter.

Now in normal times the only legal-tender currency is gold or bank notes convertible into gold. The amount of loans is therefore more or less strictly limited by the amount of gold available.

But immediately on the outbreak of war the Government provided an emergency legal-tender currency in the shape of currency notes, of which the issue was subject to no statutory restrictions, and which it placed at the disposal of banks, on certain conditions, to enable them to meet their liabilities in currency if called upon to do so.

Since that time, therefore, the influences which formerly acted in restriction of bank loans have not been operative with the same force, and banks have been in a position to expand their loans to a considerable extent without apprehension of being unable to meet their obligations in cash in the event of a run on their deposits.

Given these conditions, and in response to the urgent appeals of the Government for funds on attractive terms, the public and the banks have naturally taken advantage of the facilities open to them to subscribe largely to Government loans.

The employment of deposits for this purpose has been supplemented by loans on security of various kinds, including the bonds of the Government loans themselves, of which each issue pro-

vides the holders with the means of borrowing to subscribe to others. Further, the banks themselves have been large subscribers, the mechanism of banking, as already described, rendering it possible for them thus to supplement their customers' loans to an almost indefinite extent by direct loans of their own.

The cumulative effect of all these operations has been to create and place in the hands of the Government an enormous fund of purchasing power, without effective compulsion on the public to limit the exercise of their own purchasing power to more than a relatively moderate extent, though considerable restriction of expenditure has doubtless been effected by voluntary effort.

Armed with this purchasing power, the Government has entered into competition with the public for the acquisition of the goods and services necessary for the war, with the inevitable result of a general and formidable rise in prices and wages.

This has in its turn reacted on the amount of purchasing power required by the Government, so that it has been necessary to raise larger and larger sums as the war has proceeded, and the system has become more and more costly.

These effects are essentially similar to those which would have been produced if, to the extent of the additional purchasing power employed, the Government had manufactured inconvertible currency notes and issued them in payment of its purchases, instead of raising the amount by loan.

This is only another form of the artificial creation of purchasing power, or what is known under the compendious term of inflation.

The Government would in this case have incurred, in place of the obligations maturing at fixed dates which it has incurred in respect of loans, an indeterminate obligation in respect of the currency notes, without having to support a charge for interest for the benefit of banks and others.

The currency notes would have been to a large extent deposited in banks, while a residue would have remained in circulation, just as, under the system adopted, the sums paid out by the Government are paid in again to a large extent to the banks, while a considerable amount of currency notes is in the hands of the public.

For it must here be noted that although the Government has not actually issued currency notes in payment of its purchases, it has had to issue them in considerable quantity as a necessary adjunct to the artificial creation of purchasing power by the method of loans.

The great rise in prices and wages has called for a large increase of currency in circulation, especially among the poorer classes who do not keep banking accounts. Employers of labour and others present cheques to the banks to be cashed in legal-tender currency, and as the demand increases and the banks' supplies get exhausted, they apply to the Government, which meets the demand by issuing more and more currency notes. The stock of gold available would be quite insufficient for the purpose, and currency notes have in fact entirely replaced gold coin in circulation.

The currency notes are nominally convertible into gold, but in practice advantage has not been taken of this provision, and the notes may for practical purposes be considered as fulfilling the function of inconvertible notes.

These conditions imply a departure from the gold standard of prices, and the substitution for it of an arbitrary standard which fluctuates according to the extent to which inflated purchasing power is effectively being employed.

Departure from the gold standard, or, in other terms, depreciation of the currency, is, in fact, a characteristic sign of excessive inflation. A further characteristic sign is the fall in the exchanges with countries which retain the gold standard.

This is a necessary condition of commercial intercourse between two countries, in one of which the prices of commodities are expressed in terms of gold and in the other in terms of a depreciated currency.

In the course of the present war, the monetary conditions in all countries have been so profoundly disturbed, and both commercial intercourse and rates of exchange subjected to so much restriction and regulation in the interests of national policy, that it is difficult, in the absence of detailed information, to present at this stage an accurate account of the interactions of money, exchange, and prices which have taken place.

This much, however, is clear, that the exchange with Great Britain in various countries has fallen appreciably, and that this fact has hampered the Government in the difficult task of obtaining commodities from those countries on credit.

It is a matter of vital necessity to a belligerent government to obtain supplies from other countries on credit to the utmost extent possible, and these countries are naturally the more reluctant to comply, that is, to invest in loans to that government, when its exchange is depreciated and subject to further unknown fluctuations.

Some weight must, however, be given to the consideration that foreign investors who have confidence in the future of the borrowing country find in a low exchange an additional inducement to give credit, as they will reap a profit in the event of a subsequent recovery.

A stipulation is often made that the supplies furnished on credit shall be eventually paid for in the currency of the lending country, thus throwing on the borrowing country the burden of any further fall in the exchange.

Probably the most favourable attitude that the borrowing country could wish to find in a lending country is willingness to supply everything needed on credit, coupled with sufficient confidence for measures to be taken to prevent a fall in the exchange, even though this should involve inflation in the lending country.

These ideal conditions have been approached in at least one country—Egypt—which has exported a large surplus of commodities to the United Kingdom and its allies in the course of the war and invested the proceeds in British loans. At the same time the gold currency has been replaced by a paper currency, issued under arrangements which maintain the rate of exchange on London at or close to the normal gold par. The effect is that prices of imported and exported articles in Egypt have risen with those in the United Kingdom, and that a local inflation has taken place corresponding more or less with that in the latter country. The Government and the bankers in Egypt have, in fact, linked their fortunes with the pound sterling.

Without exhibiting, in general, quite this degree of accommodation, other countries have lent their resources extensively to the United Kingdom in the course of the war. A heavy liability has thereby been incurred to creditors abroad, partly through direct government agency, but also to a considerable extent through that of bankers and merchants in the ordinary course of trade, this latter being largely represented by Treasury bills and other short-term maturities. As a partial set-off against the liability to other countries, the United Kingdom has in its turn considerable claims on some of its allies for resources furnished to them.

Such being the broad features of the financial situation brought about by the war, it may be worth while to set out briefly a few of the considerations which bear upon the important problem of dealing with that situation after the war.

At the close of the war the Government will be under an enormous debt, due for repayment at various dates extending from

the immediate future to thirty years ahead. A portion of this debt will be owed to foreign creditors.

As far as the latter are concerned, the debt can be repaid only in material wealth. The supplies furnished for the war will, however, as already remarked, have been consumed in the war, and the available exportable wealth of the country will have been reduced to the lowest limits. The only source, therefore, from which the debt can be repaid will be the national income or growing resources of the future.

As the national income will be inadequate to bear the charge of repayment of the large amount of debt due in the near future, the loans will have to be renewed in large measure at maturity, or replaced by fresh loans, on the best terms obtainable.

This problem is beset by peculiar difficulties, arising out of the fact, already noted, that these short-term maturities largely represent deferred claims for payment for goods supplied from foreign countries during the war through the ordinary channels of trade, and may therefore be expected to materialise in the shape of a demand for goods at the first favourable opportunity. It will be for the benefit of the country to satisfy foreign demands to the greatest extent possible during the period of inflation, rather than leave claims which have been created through the purchase of goods at inflated prices to be settled by the resale of goods at low prices.

Pending the satisfaction of these claims, it is not to be expected that their holders will accept renewal on any longer terms than those which they enjoy at present. In some countries they represent issues of paper currency in the hands of the people which may be exercised as purchasing power at any moment, thus rendering it incumbent on the issuing authorities to provide cover which is capable of being realised at short notice. But the maintenance of attractive rates of interest may have some effect in retarding the realisation of a portion of the claims.

The character of that portion of the debt which is owed to creditors at home is similar to that which is owed abroad, in so far as it represents a loss of goods and services consumed in the war. This loss, however, would have been entirely written off the national balance-sheet if it had been possible to obtain the goods and services by requisition or taxation. By the system of loan the goods and services have, in effect, been taken in exchange for a promise that their equivalent shall eventually be restored, with interest, out of the future resources of the community.

The stock and bonds of war loans represent, therefore, nothing more than claims to future income, and constitute in no way any portion of the wealth of the country. To the large extent to which the holders will themselves be called upon to contribute through taxation to the interest and redemption of the loans, the respective claims of the holders and the community will cancel each other; the balance of the holders' claims being provided out of income derived from other sources.

The problem of inflation requires, however, urgent attention, for its continuance threatens the country with financial discredit and possible disaster.

The pernicious influence of an arbitrary and unstable standard of exchange affects every department of economic activity. It hampers production by creating unrest among workers and discouragement among employers. It imposes an important additional element of risk on all enterprise, not only in the United Kingdom, but in other countries to whose trade and finance London acts as the pivotal centre. The position of London as the world's clearing-house can hardly survive a protracted period of depreciated currency and exchanges. The continuance of borrowing under a *régime* of inflation becomes fatally easy, tending ultimately to the breakdown of confidence in the pound sterling and in British financial obligations. The longer the period of inflation is extended, the more harmful will be its reactions, and the more painful and dangerous will be the process of readjustment to normal conditions.

The existence of an effective gold standard in ordinary times constitutes a fairly adequate check on inflation, and, notwithstanding all its shortcomings, no better stabilising system has yet been devised. Reversion to free gold payments will not, however, be practicable until inflation has been already reduced. A premature attempt to restore them would bring about a demand for the conversion of purchasing power into gold far greater than could be satisfied out of the available supply of the metal. The demand would manifest itself with special force from the countries which have, as already noted, short-dated claims on London representing issues of paper currency. The holders of this currency would take advantage of any opportunity offered to exchange their paper for gold, the existing premium on gold acting as an additional stimulant in this direction.

Nor would it appear possible to reduce inflation by placing restrictions on the issue of currency notes. These notes, as already explained, have been issued as the necessary concomitant

of inflation, and are not the original cause of it. As inflation diminishes, reduction of the note circulation must ensue. An isolated measure of restriction in present circumstances would probably defeat its own object by provoking a run on bank deposits, for which the recognised palliative would have to be applied in the shape of liberal fresh issues of paper currency.

It is important to remember, in considering this question, that it is not the total volume of purchasing power which contributes to inflation and reacts upon prices, but the extent to which it is being effectively exercised. That portion of it which is hoarded, unused, or potential is without effect upon prices. In terms of the quantity theory of money its "velocity" may be reckoned as zero.

This consideration affords some guidance as to the direction in which inflation may best be dealt with. It indicates restriction of the effective use of purchasing power as the real object to be aimed at, an object which is not necessarily attained by a reduction in the total volume of purchasing power, and which, on the other hand, is susceptible of realisation without such reduction.

The root cause of the present state of inflation is the continuous exercise of artificially-created purchasing power by the Government To check its further progress the most effective step will have been taken when public expenditure is again confined within the limit recoverable by taxation.

This, however, essential though it is, is hardly likely to prove sufficient. The methods of war finance in force will leave a legacy of swollen bank deposits and war securities. It is to be feared that a stimulus to further inflation after the war will be provided by the facility, on the one hand, with which, in the absence of an effective check on banking operations, credits may be raised on securities, and, on the other hand, by the exercise of the purchasing power thus created, in addition to bank deposits, for the purpose of reconstituting that part of the national capital which has been destroyed in the war. The replacement of lost shipping, the arrears of maintenance of railways and buildings, the reconversion of plant from the uses of war to those of peace, the reconstitution of stocks, will take front rank among necessities. New enterprise will also put in its claims for capital. If to all these internal demands be superadded the claims from abroad in satisfaction of indebtedness, it is easily conceivable that the total effective demand will be overwhelmingly great in relation to the growing resources of the country.

Such is the disquieting prospect in view if the situation is left to the unfettered play of private interests. The danger is, however, susceptible of attack by Government or concerted action on the side both of supply and of demand.

On the supply side the scramble for essential goods might be met by a rational control of distribution, both internal and external. This involves serious practical difficulties, but it appears worthy of careful consideration, not only on the grounds at present under discussion, but in the special interests of industry.

On the side of demand the line of attack which offers the most promising results is that which would aim at preventing the conversion of potential into effective purchasing power. The effect of a capital levy in diminishing the volume of potential purchasing power has already been noticed, but this would have only a partial and indirect influence on the effective use of purchasing power. A surer means to the end in view, and one presenting fewer practical difficulties, would be a concerted measure of restriction of loans by banks.

It may be found advisable, at the same time, to maintain, adapted to suit conditions of peace, some of the other restrictions on the employment of capital which have been already introduced during the war.

It cannot be too clearly understood that the great demand which will be made on the country's resources after the war must be met, not by creation of fictitious capital, but by the maintenance of national production and national frugality to the highest possible degree. The efforts put forth during the war to increase output, to restrict consumption, to enlarge the sources of labour, will continue to be needed to repair the damage of war and to enable the country to meet its obligations. A wise administration, both economic and financial, will see to it that the national energy is directed into the proper channels with the minimum of friction and waste.

L. G. Roussin

Cairo, *October*, 1918.

THE GOLD QUESTION

I GLADLY accept an invitation from the editors of this JOURNAL to give in English a short explanation of certain considerations on the gold question which I have lately set forth in two pamphlets[1] written in Dutch. Of the economic problems raised by this world-war, none has perhaps so much attracted general attention as that concerning the causes and effects of the enormous rise in prices and wages, which, having begun shortly after the outbreak of the war, continues to aggravate in an ever-increasing degree the dislocation of socio-economic life. There is in itself nothing wonderful in a rise of prices during a great war. The characteristic economic features of war (viz., first, a modification of the social scheme of production in this sense, that productive energy is, to a very high degree, withdrawn from the production of normal national wealth and devoted to that of immaterial goods, such as the maintenance of national self-existence or the destruction of dreaded rivals, the realisation of national aspirations or illusions and of the material goods required for this; and, second, a mighty increase of the consumption by the Army and Navy even of those goods which soldiers require in time of peace also, viz., of their nourishment and clothing) cannot but cause an increasing dearth for civilians of the goods which they used to consume. Dearth becomes intenser as the war rages on a larger scale, and leads to a greater destruction of riches, which were formerly obtained laboriously (landed property, buildings, ships, railways, etc.).

Side by side with these natural and inherent causes of a rise in prices a second cause will crop up, in the belligerent countries first. The above-mentioned production of immaterial goods takes place by and under the direction of the State, which has to fit in with a society based on the exchange of goods and service. A socialistic community, to be proprietor of all means of production and disposing of the energy of its citizens with supreme

[1] *De toekomst van het goud*, Haarlem, de Erven F. Bohn, 1917, and *De goudkwestie*, Haarlem, de Erven F. Bohn, 1918.

power, would in itself be much better fitted to wage war than our present "capitalistic" states. The former would leave to the citizens what was absolutely necessary for their maintenance, consuming in war the whole of the balance. What we experience now comes to much the same thing, with this difference, however, that, whereas a socialistic community would not need to pay for the things it required, the states now at war have to do so, even where they provide for their needs not in free exchange, but by compulsion. In ordinary times the State pays for what it wants partly by the fruits of its own productive industry, partly by the proceeds of taxes drawn from the income of taxpayers. In time of war, however, the State is far from being able to pay from these two sources for what it consumes of goods and services. Therefore it has to provide itself with the necessary means of payment for the balance, partly by contracting loans, by means of which the money spent by the State is again put at its disposal, interest being provided; partly by itself creating new legal tender, or by the intervention of Banks of Issue. By means of the latter the quantity of medium of exchange increases directly; though this may result from the first also if the State contracts loans from banks on short term, or if payments by the subscribers of loans of long date are not met out of savings, but through the assistance of the banks. Whereas the payment of war expenses from taxes does not increase the quantity of medium of exchange in circulation, this is necessarily the case with the two other modes of payment. This applies, of course, especially to the issue of paper currency. As far as this augmentation of the medium of exchange surpasses the increased demand for it arising out of the war, there will occur a fall in the value of money through causes inherent in the money itself, manifesting itself in a further rise of prices and wages

Since the prices of commodities are also influenced by inherent causes and the price scales of supply and demand do not follow the very same course even with regard to two commodities, a change in the value of money will never reveal itself in a perfectly general and regular change in prices and wages. As a rule a change in the value of money will reveal itself, first in the prices of wholesale trade, then in those of retail trade, whereas its force is felt in wages only last.

In my opinion, one should distinguish between these three things: a *change in the purchasing power of money—i.e.*, every variation in the relation of exchange between money and goods which may have been brought about by causes either in the money

or in the goods, or in both; *depreciation*, or, as the case may be, appreciation, of money—*i.e.*, a modification in the above-mentioned relation of exchange through causes inherent in the money: and *inflation*—*i.e.*, a depreciation of money arising from an excessive issue, *i.e.*, insufficiently covered by metal, of paper money by the State or (and) Banks of Issue.

Now there certainly has been an increased demand for the medium of exchange, on account of a rise in the price-level from causes inherent in the goods themselves. Moreover, payment in cash—a practice which has been increasing during the war—has not only, through the influence of greater rapidity in circulation, virtually enlarged the amount of the medium of exchange, but it has also increased the need of cash. It seems, however, that if one weighs the importance of the factors on the part of the stock of money against those on the part of the want of medium of exchange, it can hardly be denied that with the belligerents the stock has increased more than the want, and therefore depreciation, and even inflation of money on account of the form in which it occurs, has occurred. The States pay for carrying on the war for a very great part with the legal tenders flowing from the printing presses of the Governments or of the Bank Directions, hardly paying any attention to prices, asking for and getting what they are in need of. Thus this newly-made money flows in abundance to the suppliers of the States, who, in their turn, suddenly disposing of cash to amounts hitherto unknown, are willing to pay high wages and prices for the labour and raw materials necessary for their very profitable business. Consequently the new money of the State or the Banks flows before long throughout the country, everywhere increasing and depreciating the money-value. Inflation thus in full swing will stimulate at first the import from countries where a rise in prices has not yet made its influence felt in the same degree, and create a fall of the foreign exchanges too, a fall all the quicker as production for export has had to be limited through modified conditions of the home market and war impediments in international intercourse.

According to Gresham's law, gold should have left the country in normal times. Now the legal or actual inconvertibility of paper currency, as a rule, will render this impossible, although, with authority of the Governments, a good deal of commercial transactions were settled in gold, which gold, in this case, could only flow into neutral countries and the U.S. and Japan, which occupied a peculiar place among the belligerents. It thus happened that, in consequence of the unequalled increase of the reserves of

gold of the Banks,[1] there also came an excessive increase of circulating medium, leading to depreciation of money.

The yellow metal itself, too, must be considered as depreciated in neutral countries, and it will probably become depreciated, after the war is over, throughout the whole world. This depreciation cannot be evident there while, as is the case up till now, the mints remain open to gold, and the depreciated gold cannot flow back to foreign countries on account of the much greater depreciation of the valuta of the belligerents, forming, indeed, the large majority of humanity. The money unit and gold are, in these countries, coupled closely together, but the increase of means of circulation in neutral countries holds actually only good for gold, and for banknotes completely covered by gold, which are therefore equalised with gold. Therefore depreciation of money in those countries can be identified with depreciation of gold. Money depreciation, in which gold would take no part, could, in countries with the gold standard like the Netherlands, only mean the existence of inflation in a specified sense. There can, however, be no question about inflation when there is a covering of metal of all notes for more than 70 per cent., as is the case in the Netherlands.

As a consequence of this course of development, the question of the future of gold arises everywhere, but in quite a different form in belligerent and neutral countries. The former centralised, during the war, in their banks, as much as was possible, the gold that was within their reach, and substituted paper currency for internal use, partly to support their exchanges with the gold thus gathered, partly to pay for their purchases from Allied or neutral foreign countries. As far as the belligerent Powers have at present still got a reserve of gold at their disposal, they will keep it in hand as long as possible in order to maintain the prestige of their Banks of Issue, and so as to be able to dispose of legal tender when, in post-war times, they will have to replenish their commercial stock from foreign countries; otherwise it will, for the greater part, if not impeded, flow away once more into the neutral foreign countries, the productive energy of which, as far as their normal economic

[1] The reserve of gold amounted to :—

		July, 1914.	June, 1918.	Absolute increase.	Per cent.
The Netherlands	(mill. guilders)	162.1	720.3	558.2	444.4
Spain	(„ pesetas)	543.5	2,066.9	1,523.4	380.3
Sweden	(„ crowns)	105.8	258.7	152.9	244.5
Denmark	(„ „)	75.6	184.1	108.5	243.5
Norway	(„ „)	52.4	120.1	67.7	229.2
Switzerland	(„ francs)	180.1	381.1	201.0	211.6

life is concerned, has also suffered intensely by the war, yet in a less degree than is the case with the belligerents. The terms of exchange between belligerents and neutrals will for that reason prove to be modified unfavourably to the former, even for a long time after the peace. Therefore the gold at their disposal is, for the belligerents, as it were, a treasure dug in their own country, the value of which is gladly employed to relieve somewhat the tremendous burden of war expenses and restoration after war.

For neutrals the matter has a quite different aspect. The gold that flowed into their banks had not been withdrawn from internal circulation, but came from abroad in payment for the export of their products. As far as the latter served to secure the import of foodstuffs and raw materials, it has been, as in times of peace, a means to keep national industrial life going and to promote national welfare. But mere payments in gold, which was depreciated already in neutral countries, and after the peace will be so, to all expectation, in a still larger area, put export countries in a position of gilded poverty, of which in due course, when the superfluous gold will leave them again at an even more depreciated value in payment for imports strongly advanced in price, the gilding will vanish and nothing but poverty will remain.

Even during war this enormous increase of the stock of gold is undesirable. For the Bank itself such a considerable reserve of gold as exists at present in the Netherlands, covering rather more than 70 per cent. of the claimable debt, is a cumbersome possession. It is by no means necessary for the Bank's prestige, and it is a barren part of its assets. And this influx of gold, which inevitably led to a depreciation of money, is a positive disadvantage to the nation as a whole.

Moreover, the importance of this will be still further augmented if one turns one's eyes upon the future. For the question ought to be put: How are the neutral countries to get rid in due course of this superfluous gold for which they cannot find a permanent employment in their own countries? It is evident that the gold which flowed into the neutral countries cannot flow away until the course of exchange with the foreign countries falls below the gold-point. Such a decline in the price of the bill of exchange, however, points either to inflation of the national money or to a change, in an unfavourable sense, of the exchange terms with the foreign countries, because either the products, which the latter can furnish, are desired in a higher degree than before, or, conversely, their own products are less desired abroad.

The one as well as the other will reveal itself in the country with an increased gold reserve in a rise of the level of the prices of the import articles above that in foreign countries. In that case the imports will rise above the exports (both taken in the widest sense), and the balance of payment will be found by the export of gold.

Of course, the Bank, supported by its large reserve of gold, could largely increase working capital by fixing and maintaining a low rate of interest and hence force up the price level which would lead to an export of the superfluous gold. But in this way the depreciation of the national money would be still further extended, and the restoration of normal proportions would be still more impeded. It cannot be expected, therefore, that the Bank will lend its hand to such a policy, and, if it were to do it, then Government would undoubtedly interfere. So the price level will have to be pushed up to a higher level than elsewhere, not by inflation, but by the overbidding of foreign countries—*necessary* on account of the exhaustion of our supplies of raw materials and foodstuffs, and *possible* on account of the large stock of gold. Thus countries in which the gold accumulated and which neglected to protect themselves against these Midas riches, will have to reckon with the discouraging prospect that, after the peace, the price level will still be rising there, or that at least the fall will be slower there than abroad. And this prospect is even darker because, if no measures are taken to prevent it, there is in all probability to be expected still more gold from the belligerent countries after the peace, and because, even if this were not the case, foreign countries will not be willing to take back all the gold they parted with. In England, France, and Germany, to mention these countries only, the gold circulated freely in home intercourse before the war. The war has now made the population accustomed to the use of cheap fiduciary methods for this purpose. Certainly nobody will expect gold to take its old place again. The exhausted nations can utilise their enfeebled energy more usefully than by buying back the gold from abroad in exchange for the fruits of their exertion, in order to permit themselves the luxury of paying their little purchases in the home trade therewith. In Germany authoritative voices are even being raised that plead for a regulation of its currency system, apart from gold altogether. Even if the latter should not be listened to for the present, yet the transition of the principal civilised nations to the gold exchange standard—in which the gold standard money will no longer be found in the ordinary

circulation, but centralised in the banks, only serving to maintain the foreign exchanges within the gold points—will render a considerable economy possible in the quantity of gold wanted. Thus the depreciation of gold, at present only existing in the neutral countries, will become quite a universal phenomenon, which will endanger still more the export of the superfluous gold from the countries where it had a free influx. The prospect for those countries is therefore far from cheerful!

Since the theory of finance and banking has been scientifically studied, authors on this subject agree, in this respect, I think, that the first thing to be required of a regulated system of money must be this: that there ought to be guarantees against depreciation. A perfect stability in the purchasing power of money it may be impossible to realise, perhaps even undesirable, yet this may not be modified by causes in the money itself, in so far at least as the appearance of such causes may be prevented. With the metallic money system this will not always be possible, on account of variations in the production of precious metals, which sometimes make their influence felt at rather short notice. But whatever a Government may have in its power to realise the stability of the value of money in this sense may not be left undone. Hence the care with which guarantees have been sought against inflation by Banks of Issue, a care which, by the way, while not extended to the other banks, can only imperfectly attain its end. But now the question arises whether a Government ought to permit calmly a depreciation of money by a superfluous influx of standard metal, although in times such as we live in such an influx is still augmenting the dislocation of social economic life, and will greatly impede the restoration after the peace. A question which becomes more important the less the ability and readiness of the belligerents to buy back the exported gold or at least keep a lasting hold on the reserve of money still in their possession.

As early as February, 1916, Sweden, in my opinion rightly, gave a negative answer. Taking for granted the depreciation of gold in the neutral foreign countries, it has prevented the national monetary unit from following further that depreciation by suspending the liberty of the coinage of gold, and acquitting the Bank of its obligation of buying all the gold offered at a fixed price. The unmodified maintenance of the regulations for the covering of its notes to which the Bank is subjected caused, indeed, a further purchase of gold, because, in spite of a considerable rise in the rate of discount, the demands for credit continued,

But the arrangement made in February, 1916, has been maintained so far, and extended till February, 1919, pending recommendations by a committee appointed for this purpose. The gold import in Sweden occurring since February, 1916, has only been the consequence of the fact that they stopped half-way and did not establish a modified regulation concerning the covering of the banknotes together with the abandonment of the gold standard.

Sweden has been reproached for introducing its arrangement at so short a notice, and so injuring its foreign debtors on account of contracts negotiated at a former date.[1] This may perhaps be true, a term of transition for contracts already made *bona fide* would have been advisable; yet from a Swedish national point of view the arrangement is, in my opinion, perfectly defensible. It has at least tempered the depreciation of the crown and led to a less degree of disturbance of the home price level than must be the case in countries where gold can go on flowing in freely.

Sweden's exports, which in the beginning may have been somewhat checked by the measure, got paid either with the goods it wanted or with bonds yielding interest, which, if not prolonged, in due time will have to be paid back in goods and services. International claims may of course involve peculiar risks, especially now. But Sweden surely will have taken care to be secured against them as far as possible. It is, however, clear that it will not be able to maintain perpetually the situation created there at present. By withdrawing the liberty of coining gold one cannot actually abolish the gold standard and at the same time keep it as the foundation for covering the bank obligations and for the maintaining of the parity of one's own money in international payments. Sweden has, by this measure of February, 1916, wisely moderated the import of gold, but it will inevitably be placed before the alternative, *either* to cancel the measure before long, with the certainty that its reserve of gold will increase far beyond its needs, that it will be deprived of interest of that part of its fortune invested in gold, that its money will be further depreciated, and that it will appear to have suffered a considerable loss when the superfluous gold will be re-exported later on; *or* to bring about a lasting arrangement, upon another than a gold basis, of its currency and banking system. Things as they are at present, of course, bear the character of a transitional situation. Thus the question arises for Sweden whether a secure basis of

[1] Its own citizens, too, who had become creditors of foreign countries before that time, were also affected.

the currency and banking system of a country can be found, apart from a metallic foundation. For the substitution of another standard metal for gold would not solve the problem. Besides, it would not really be possible.

And the same question, of course, holds good for those countries which do not desire their reserve of gold, already excessively increased, to augment any further. The question applies also to those countries, too, which, having given up their gold for the greater part to foreign countries, will want to restore their finance, disturbed by inflation, as soon as possible after the war.

Now one should bear in mind that in normal times the maintenance of parities of exchanges proved possible in the great majority of cases by arbitrage and sale of funds, without the necessity of the sending of any gold. There is a natural equilibrium in the balance of payment between a country and the rest of the world; disturbance in any direction will of itself tend to restore that equilibrium by reason of the stimulus which makes, in the case of falling exchanges, export, and, in the case of rising exchanges, import, the more profitable. It must, however, be acknowledged that the restoration of equilibrium by this means requires more time than when gold is at once available in order to be exported or imported as the exchanges fall below or rise above the gold points, gold being a desired article all over the world on the basis of the parity of the coin. Hence we have to seek a means that, working with equal quickness and certainty, might take over this function of gold. Now, in my opinion, this means might be found in the Banks of Issue taking the lead, for this purpose, in the exchange arbitrage by sufficiently extending their foreign portfolio (including credit balances abroad). To accomplish this one need only guard against a fall in the course of the foreign exchanges, a symptom of depreciation. The Bank can hardly be obliged to take measures against a rise, the sign of depreciation of the foreign valuta, although it will quite naturally contribute a little to the restoration of a rising exchange as a prominent purchaser in the market. Even in countries with metallic currency systems neither the Government nor the Board of the Bank have ever been either legally or even morally obliged to guarantee national industrial life against possible depreciation of foreign valutas.

If, now, the demand for remittance on any country augments, and in consequence the course of exchange on that country is falling, then the bank will be able to check the fall by meeting

the need out of its portfolio by drawing cheques on its foreign credits. In this manner the great common interest of a fixed basis of settlement with the foreign countries can be secured, and that in a way which serves at the same time the interest of the banks (and that of the public treasury, too, on account of the sharing of profits between bank and Government as existing in several countries), because in this system the barren gold in the vaults of the bank will be substituted by a portfolio that is yielding interest.

In this system guarantees are wanted, however, that the fixity of the courses of exchange will not only be attainable, but will be attained. To make sure of that, a double stipulation should be inserted in the bank charter : first, that the bank should at all times keep up a foreign portfolio to an amount bearing a certain proportion (to be defined later on) to its directly claimable debt : secondly, that with a fall in the course of exchange beyond a certain limit (to be defined later on) it should take such measures as to make it rise again above that limit within a period, which must be stipulated, *e.g.*, eight days. Both stipulations, indeed, are closely interconnected, the first making an active exchange policy of the bank possible ; the latter offering guarantees against a fall of the exchanges in consequence of an excessive augmentation of bank-money.

In this way, apart from gold, the stability of the courses of exchange will be secured, at the same time eliminating the danger of inflation. By an arrangement like the one proposed here the disadvantages which gold has already imposed on the neutral countries could at least be prevented from increasing in the future ; for those countries that will accept this system the considerable economy in the expenses of commerce, which began with the establishment of Banks of Issue, will be completed, and the greater the number of countries which will join, the more will be increased the international solidarity of interests.

At present I do not wish to enter any further into either the theoretical foundations of the non-metallic currency system, of which the above-mentioned is an application, or the opposition which it has met with. Maybe an occasion for this will come later on. At the moment I only want to show, on main lines, in what manner, after abandoning gold as the foundation of international payments in any country, a system of currency and banking is possible which in normal times does not offer less guarantees against inflation of the valuta than those prevailing in the civilised nations of the present day.

In this connection I may remark that the supporters of the metallic theory, in my opinion, are not sufficiently impressed with the simple truth that money, as such, leaving pathological exceptional cases out of question, is never desired for its own sake, but only as an intermediate link in exchange transactions. It has only value as such, which is determined by the importance ascribed to the services it renders. Money is valuable because, and as far as, it is useful, and its peculiar usefulness consists in the fact that, by reason of its power of paying off debts to the Government, accepted as a medium of exchange in commerce, it can at pleasure be changed into all commodities and services which are available for the owner of the money, in proportion to the value of that for which the money was originally paid. In the present stage of development of civilised nations it is, in my opinion, no longer necessary that money itself should be made of so precious a material as gold in order to play its part in economic life.

In the year 1816 Ricardo wrote his famous *Proposals for an Economical and Secure Currency*, in which he showed, as McCulloch says, "that intrinsic value is not necessary to a currency, and that, provided the supply of paper notes, declared to be legal tender, be sufficiently limited, their value may be maintained on a par with the value of gold, or raised to any higher level." In this pamphlet Ricardo, pleading, not indeed for a non-metallic monetary system, but for the gold-exchange standard, said: "The introduction of the precious metals for the purpose of money may with truth be considered one of the most important steps towards the improvement of commerce and the arts of civilised life; *but it is not less true that, with the advancement of knowledge and science, we discover that it would be another improvement to banish them again from the employment to which, during a less enlightened period, they had been so advantageously applied.*" (*Works*, ed. McCulloch, p. 404.) The gold-exchange system, already applied in some countries, will, as a consequence of this world-war, in all probability be now introduced into the rest of the civilised world. May it never again necessitate so long a course of time and so gruesome a motive to induce the civilised nations to make themselves free from this costly and not indispensable medium of exchange.

C. A. VERRIJN STUART

Utrecht, *August*, 1918.

REVIEW-ARTICLE

A Levy upon Capital and War Finance.

Economic Problems of Peace after War. (Second Series.) By William Robert Scott, M.A., D.Phil., Litt.D., LL.D. (Cambridge: The University Press. 1918. Pp. xii+139. 6*s*. net.)

Professor Scott whets our hopes in his Preface by telling us that in this "second series" of Jevons Lectures "concrete illustrations" will be given of the "working" of the "method" indicated in the first. That earlier course, delivered at University College, London, in 1917, was, it will be remembered, reviewed in the December number of the Economic Journal for that year (Vol. XXVII., pp. 530–532). In current debates, Dr. Scott contends, "undue concentration upon details" has meant the "neglect of wide and comprehensive principles, many of which," however, he observes, "are psychological rather than purely economic." It would, we feel, be perverse to quarrel with the general truth, or the special pertinence to present plans of "reconstruction," of his "paradox" that "what is most important in facing the future is first to reach the right point of view." Nor is the Adam Smith Professor of Glasgow University dishonourably, or, we may add, inappropriately, distinguished from many players at the fashionable game of bold prophecy by the cool circumspection of his horoscopes. So far as we can judge, he has not seized an opportunity when vast disturbance has occurred, or large commotion threatens, to push forward exclusively preconceived pet ambitions of his own. Nor does he try in a favouring situation to advance in haste the class interests of one or more sections of the community to the designed, if not avowed, injury or punishment of others. If he does not wish, or contrive, to escape all taint of propaganda, the chief objects that he seeks are, it will be evident, not precisely fitted to win popular applause. It is, we would suggest, wholesome, but it needs some courage, to recall in these surroundings the healing virtues of individual

liberty and the insidious wastefulness of government control. Such a moral, falling once again from our author's lips in his second course of lectures, is not pressed with exaggeration; but it may aptly serve to confirm the "proper attitude of mind towards the problems" of the immediate future which was earnestly enjoined in the first set of addresses.

We must, notwithstanding, add that on one at least of the two groups of questions handled now by Dr. Scott he appears to run imminent risk of a reproach invited, as we hold, more seasonably by the discourses of the previous year The nature of the subject may not easily admit of treatment differing from that adopted; but, acute and forcible as are his remarks on the feasibility and results of the methods and the aims reviewed in the first two chapters, many, if not all, of the conclusions drawn are tentative, and the whole discussion seems somewhat nebulous. Here as in the former volume a rich command of apt quotation lends relief to refined, if not exhausting or laborious, argument; and the heading of the first chapter, "Mare liberum: aer clausus," will be allowed to be a happy choice. Yet in the opening lecture a hesitating and elusive subtilty will, we fear, often disappoint readers who looked for more plain direction. As we should anticipate from a previous partiality for Free Trade, Professor Scott in his second discourse is not slow to note, or disinclined to emphasise, difficulties attendant on the mode and measure of the economic control to be exerted in and by a "League of Nations"; but the final issue of a searching survey will not, we imagine, yield much enlightenment. For we are told that, while the "prospects of the future," without such a League, "can only be described as an unfavourable certainty," "with it, perhaps, these may be transformed into a favourable uncertainty."

The "remainder" of the lectures "deal with problems of finance"; and some restraint, we frankly allow, is necessarily imposed on full positive pronouncement at the present moment on what will, or should, happen during the "transition" from war to peace, and *a fortiori* on the situation as it is likely to be discovered "ten years after." Dr. Scott is no morose pessimist, and he gives substantial reasons for his cheering faith. But his justified confidence that we need fear neither "financial exhaustion" during the war nor "financial collapse" at its end was properly guarded by the proviso that reasonable prudence will be shown in the use of resources that have proved surprisingly abundant and enduring, and by the apt reminder that the restoration of tolerable economy on the side of the great spending depart-

ments of the Government should be swiftly and effectually achieved. His general prognostications and his particular suggestions in these concluding pages are, it need hardly be emphasised, based on large and accurate knowledge, and convey sage and opportune advice; but the balanced movement which is necessary in a cloudy atmosphere where the changing winds of guess and estimate prevail must be warily essayed, and the adjustment reached at last is so delicately poised that it may seem insecure.

It is in the earlier and not in the later of the "financial" chapters that we reach firm ground and obtain more certain help; and we are disposed to hold that these two middle lectures of the book are the most valuable, as they furnish the least indefinite, contribution made therein by Dr. Scott to the economic literature of war. We speak now of "war" in preference to "peace"; for the first of the crucial questions raised by him—that of the choice between taxes and loans as the "ways and means" of financing war—must, we think, be influenced predominantly by consideration of the great immediate stress caused by that current expenditure on military and naval operations which must *instanter* be provided from one source or another. Nor are the *pros* and *cons* of the second vexed debate, which is reviewed, on proposals made for the prompt extinction of debt thus incurred by a special levy from capital in a single contribution at the close likely to be unaffected in their turn by the enormous magnitude of such outlay. That cannot, as we have noticed, be deferred, but perforce is crowded into a brief period, in modern warfare waged between the large conscript armies of industrial countries. Reference to "peace after war" may, it is true, be suitably and obviously appended; but it is especially significant that the stern economic strain to be faced directly by the fighting peoples is in no small measure concentrated within narrow limits fixed by the actual continuance of the conflict. And for that very reason they may justly feel that all legitimate contrivance for relief, which is possible, should be employed by their financiers.

In his treatment of both problems Professor Scott secures an admirable breadth of view. With scrupulous fairness he expounds conflicting doctrines which he weighs in the just scales of temperate detachment. But he reaches conclusions which are as clear and final as they are sane and sure. In the process he dexterously contrives to illuminate old and bring forward new considerations. On the discussion of taxes *versus* loans, for instance, he urges cogently that, if taxation be found to be too heavy, it may,

forcing the payer to seek assistance from his bank, itself produce the very result which is the gravamen of the charge brought against the alternative of loans. It may cause "inflation," with its consequences. His historical summary of the past attitude of British and German economic writers—the former starting with an exclusive programme of taxation and the latter at the outset insisting upon borrowing alone as war proceeds, while subsequent experience has, in fact, suggested, or dictated, practical departures from either theoretical extreme—is as neat and terse as it is fresh and informing. For the complete rebuttal, indeed, of impossible contentions used in this dispute by recent supporters of the first position on both sides of the Atlantic we should recommend a masterly essay of Professor Seligman, noted, and summarised, in the March number of this JOURNAL for 1918 (p. 131). That authority on the economics of taxation, duly emphasising the new but necessary contrast between the "objective costs" and the "subjective sacrifice" of war, and rightly dwelling on the ignored or forgotten potency of credit—no less, and even more, in its public than in its private shape easing a pecuniary burden by spreading the time within which its irksomeness is borne—demonstrates *seriatim* the errors of commission or omission of the extravagant partisans of taxes against loans. But the Columbia University expert referred with appreciation to his Glasgow colleague's share in this controversy; and we feel with him that in the book before us, as elsewhere, Dr. Scott has lent timely help, correcting the excesses in the adoption, and enforcement, of a creed which, temperately stated and suitably advanced, is as salutary as it is beyond dispute. As he pithily observes at the end of this lecture, the plain duty of Chancellors of the Exchequer is "not to injure the future productivity" of taxation or of trade, but they should nevertheless carry taxes to the "verge" of the limit so prescribed.

In this book, too, as elsewhere, Professor Scott ably and fairly deals with the new, or revived, suggestion of a single special levy upon capital to be made for the prompt riddance of the heavy weight of war indebtedness. It is curious, and it is not without significance, that an identity, existing, we admit, along with a distinction, can be traced between adherents of taxes in the room of loans for financing current war expenditure and those who propose at the conclusion to mulct the thrifty who have saved, setting free previous extravagant selfish spenders, by assessing capital and using the funds obtained to extinguish the whole or most of the debt contracted. There is inconsistency, though there

is also some congruity, in the standpoints taken by writers who extend their favour to both plans. The former, shown in frowns at first and indulgent glances afterwards at the receipt by the State of capital in preference to income, may be due to an astonishing levity, or a negligent cordiality, with which the last scheme has been countenanced in academic quarters where we might expect a more rigorous scrutiny of its necessary limitations and a clearer recognition of the possible sequel of so hazardous a precedent. But the reconciliation of two views apparently opposed may be more probably discovered in that common idea of a redistribution of wealth, which is the end approved, if not the purpose avowed, by political advocates of the project of a capital levy. We have not adequate space in this review for exhaustive exploration; nor can we illustrate, as it deserves, the cool, decisive skill with which Dr. Scott inserts the keen edge of his probing criticism into the plausible analogies between capital and labour which are put forward under the disguise of the misleading phrase "conscription," or display the pitiless just resolve with which, removing the hollow pretexts, he lays bare the serious gaps of the vaunted programme. There are, however, two important points to which we think attention has not hitherto been sufficiently directed, and these we will proceed to state.

The treatment to be given to those who hold capital in the particular shape of the scrip of war loans has, it is evident, caused some trouble; and "special pleaders" have tried to combine recommendation of a quick plan for getting rid of debt, which may look like *novæ tabulæ*, with ancient prejudice against "repudiation," and a pristine integrity, which would jealously maintain the repute, hitherto not sullied, of British credit. An English Minister, dallying in what we would hope was no more than a passing whim of perverse guileless caprice with the poisoned bait, had excused his ominous unexpected deviation from the strait path of financial rectitude by offering the poor comfort to subscribers of war stock that they will at any rate not be treated worse than other capitalist taxpayers. Less responsible but more thorough friends of a policy of disputable wisdom, in considered articles written for scientific periodicals, have gone further, and, making precise what Mr. Bonar Law left vague, they suggest some discrimination, in less or more generous degree, in the proposed assessment in favour of this special class. But in the course of those identical essays these same writers proved to their own satisfaction that the levy which they urge would be facilitated by the lucky accident that at the end of the Great War a very large proportion of the capital

of the United Kingdom would have assumed the shape—specially amenable to such fiscal manipulation—of holdings of war loans. They seem indeed in this, as in other respects, to be attempting at once both to "eat" and to "have" their "cake."

Yet, as Professor Scott has pertinently noticed, an active agitation of this sort for "conscription of capital" was ill calculated to promote the continued or augmented sale of war stock. It is more obviously fitted to discount the large assurance, widely advertised and often repeated, of Cabinet statesmen and minor members of the Government, of responsible officials specially concerned in such affairs like the Public Trustee, of Lord Mayors, of business experts, bankers, and insurance companies. They are quoted as vouching that the security is absolute, and the investment can be thoroughly recommended to the humble and the timid who cannot afford, and will not wish, to run the risk of forfeiting their future incomes, however patriotically anxious they might be to aid their country at the crisis of its fate and of their fortunes. A long list of such "prospectuses," couched in terms of menace or cajolery, which may perhaps exhibit more vulgar blatancy than dignified restraint, has appeared in the daily and the weekly Press. But we will content ourselves with a single quotation from one of the most recent of such appeals. It is that of Sir Edward Holden, whose autograph signature, we were told, had been appended to a personal letter addressed to the customers of his bank. On the "value to the investor" of National Bonds the Chairman declares that he "need only say" that the London, City and Midland Bank is "taking them freely as being the best possible investment now open to a prudent and conservative bank for all funds which are available for that purpose." Such an opinion from so great an authority must have due weight, and we understand that this message was being sent by all the banks to all depositors.

The particular point we now desire to urge is that it is not merely the perfect safety of the original principal which, guaranteed by the State, is, so to say, "underwritten" by this large, impressive group of financial and political magnates of fame; but the solemn covenant expressly covers the payment for a certain time of a definite rate of interest. The nation, represented by the Government, contracts in the case of each successive issue neither to compel receipt of the principal nor to force reduction of the interest before dates more or less remote from that of the invitation to subscribe. That additional fact, as it appears to us, has not perhaps been forgotten; but it certainly has received

no conspicuous notice, in discussions of a levy upon capital to be used immediately for the complete extinction of war-debt.

Yet, if, on the one hand, we are reminded by what may be the qualms of uneasy conscience that the proposal can be distinguished from the "red revolution" of probable affinity with which it may appear to arouse suspicion, we should remember, on the other, that this condition, or rather a commonplace concern for the continuing credit which successful practical finance demands, would imply that "repudiation" in any shape or degree should be, not loosely construed or lightly regarded, but, on the contrary, punctiliously, and even meticulously, avoided. It must indeed be shunned like the mortal contact of the plague by alert faithful guardians of public health. For the slightest whisper of approach even from a distance to so slippery an incline cannot be allowed once to get abroad without bringing grave risk to national security. Worldly wisdom imperatively enjoins such elementary precaution apart from any fine respect for the moral claims of strict good faith. Here, as elsewhere, it remains severely true that "two blacks do not make a white"; nor is a breach of public honour palliated or condoned because the suffering caused will be shared by a section consisting of war-stock-owners with the larger portion of the inhabitants of a country composed of the taxpayers possessing capital who are mulcted by the State as contributors to such a levy.

The fair edifice of British credit is, we fear, threatened at the present moment from two opposite directions. We do not know whether it is in more serious danger of its foundations being undermined, with specious apologies, by the economists and politicians who play thus with plans of "conscripting" capital, or of its superstructure shaking and falling, when it is overladen with insecure storeys added by the grandiose designs of daring builders. For, untaught by painful lessons from the past, these financiers have not learnt that the conjuring legerdemain of deft magicians juggling with paper substitutes for hard cash will not pass a stern test. They will prove in the end to have no enduring substance nor do they possess real worth. "Great experiments," alas! have been often made by credit-mongers at such periods of crisis, and, repeatedly, collapse, however long postponed, or adroitly, it may be, "camouflaged," has become inevitable and wrought far and wide disastrous ruin. South Sea "Bubbles," or even the misjudged ability or libelled intentions of a John Law, may find their parallels to-day amid circumstances such as those which the quick end of a huge long war may offer. We hope that the shrewd sobriety of

our countrymen will serve as a precaution against the imaginative extravagance of these "châteaux en Espagne." But we also trust that their known persuasion that in business "honesty is the best policy," which has deservedly spread reliance on English goods throughout the markets of the globe, will confirm their pride in observing unimpaired all the obligations of the National Debt, however onerous be the increased pressure of the augmented burden. Any other way deadly danger lies.

The second point, overlooked, as we suggest, in these discussions, recently set on foot or reintroduced, is equally important. Difficulties of assessment have been allowed with candour by supporters of the contemplated scheme of a single special levy to be made on capital: but the admission is forthwith followed in many instances by prompt attempts to minimise their gravity. Significant misgiving on the full dictates of rigorous equity is in this connection calmed or hushed by a refined comparison of relative magnitudes. That has been drawn, for instance, between the quantities of the possessions belonging to the more and the less opulent classes respectively, and of the kinds of wealth distinguished in contrast as "material" and "immaterial" or "personal." For it has been allowed, or urged, that the collection of the tax should be eased by omissions more or less considerable from its purview. Such exceptions may well invoke close notice in their inauspicious bearing on the underlying aim of reaching by this particular financial method the object cherished independently before by some of its advocates who wish for the redistribution of wealth; or they, or others, may seek to win by adventitious, if not by dubious, means a needed popularity for their alarming plan. But more unbiassed reflection on the obvious obstacles offered to achievement of the necessary work of the fiscal officials within limits of time, which will not be compared appropriately to postponement to the "Greek Kalends," has also been responsible for part at least of this attempt at adjustment. The preliminary business of valuation is indeed enormous, and its complexity is not less evident and terrifying than its size. Cynical critics of the twists and turns of the supporters of the wonder-working project may perhaps be ready to pour scorn on the ostensible readiness with which professions of scrupulous equity are advanced at first, and then, on second thoughts, are hurriedly withdrawn more or less completely, because they can with difficulty be fulfilled, and the convenient maxim *de minimis non curat lex* is, in the end, as a final resource, elastically applied. Still, this procedure has to maintain an equipoise between the forfeiture of needed revenue

and the economy and speed and ease of its collection, and it is hard, if it is not impossible, to balance exactly the claims of justice against the appetite of democracy. In this predicament we ought not perhaps to be much astonished by renewed recourse to an old unsatisfactory device. It is designed for shifting rather than removing a formidable stubborn impediment. Yet it is seriously urged as a good discovery that contributors should themselves take the trouble, give the time, and bear the cost, of assessing their capital, under the threat of fines to be exacted later. Their mistakes will be thus corrected, we are told, when some Government official, perhaps of petty station and of no special capacity or training for such expert work, has the leisure to review the earlier provisional calculations. There is, unhappily, an ominous precedent for this evasion of the plain safeguards and primary responsibilities of fair and smooth taxation. Mr. Lloyd George's original notion in his famous Budget was that landowners should similarly be asked to render their own reckoning of site-value with the like menace of dire penalties for their errors. The good sense, or the rudimentary justice, of the general public, or the House of Commons, caused the prompt withdrawal of this makeshift; and the State undertook the indispensable preliminary to the collection of "increment," "reversion," and "undeveloped land duties." They have, however, yielded hitherto a ridiculous quantity of net revenue. It has, in fact, been clearly demonstrated that the "public value" of land has failed as yet to furnish the promised riches for the national Exchequer; and the disappointing issue of the ambitious enterprise, triumphantly announced, has been, in effect, a consequence of the many great complexities of equitable appraisement which were at the outset airily dismissed by theoretical enthusiasts for the "new finance" of the Act of 1909–1910. Mr. Mitchell, in the September number of this JOURNAL for 1918, is not exaggerating when he writes of the "ghastly fiasco of the valuations" (p. 274). Confusion rather than finality, dissatisfaction and not content, irritating doubt in place of calm trust, have in actual fact resulted. The taxpayers have been much harassed, but the revenue has lost and has not gained.

The Chancellor of the Exchequer, then, like Professor Pigou and his companions to day, in the June number of the ECONOMIC JOURNAL for 1918 (pp. 149, 164) was perhaps astute—or shall we say adroit or "slim"?—in shirking great continuing trouble by placing upon others the heavy burden of solving a vexed conundrum. But it has not, we think, been shown successfully in those articles of the present date, to which we have just alluded, that it

will be easier, or more possible, to reach a satisfactory or quick result in the later than it was in the earlier case. For valuation is intrinsically an opportunity for varying estimates more or less uncertain and unfair; and doubts and disputes can hardly fail to arise in the process wherever and whenever it is used. In this particular connection we are reminded, indeed, by the writers to whom we have referred that the large quota of the total capital of the whole country now in the convenient form of war stock will simplify the problem of assessment which, they urge, has been purposely exaggerated. But the accompanying statement that "ideal perfection and exactitude, to five places of decimals, is not attainable" does not restore our trust. Nor is it reassuring to be told that "the problem of assessing and collecting such a tax presents no overwhelming difficulties."

What we have been more surprised to note in the whole debate is that little or no reference is made in recent controversial talk to relevant material forthcoming from another source. It may nevertheless still serve in time as a warning to move cautiously in this uncertain region of fiscal experiment. A brief study of accessible literature of recognised repute would have disclosed the pertinent fact that as a financial instrument a "general property tax" has evoked a loud continuing chorus of unanimous insistent blame from the authorities, and that its most patent defects attach to that valuation which is an inevitable attendant. Nor should it be forgotten that, if, for measuring "site-values," we are referred to a subtle product of abstract hypothetical reasoning, which can but imperfectly at the best be identified with the concrete substance of the tangible realities of practical life, on the other hand the estimation needed for a general property tax, as for a special levy upon capital, is a task of much wider range. It may well demand a longer period for its full achievement because the wealth with which it is concerned is more diversified in nature and in quantity. Whether levied once for all, as is now proposed in this country by those who would "conscribe" capital for extinguishing debt, or repeated, as in those fiscal systems where in the past and abroad it has given notorious dissatisfaction to payers and receivers alike, a valuation must be made. And, while there is no sure guarantee that the victims of a special levy for a definite purpose will henceforth be immune from the same or other methods of taxation, repetition may bring the compensating advantage to the sufferers that opportunity is thereby offered for the amendment of mistakes which cannot, it is obvious, be set right in what is already past and gone beyond recall. It is, however, difficult to draw en-

couraging conclusions from the significant fact that the ascertainment of land-values under the Finance Act of 1910 had not yet, in 1918, been finished, or the doubts and disputes to which it had given rise resolved. The law to-day still presents many loose ends due to decisions of the Courts on the correct interpretation of the difficult language of its intricate provisions. The Parliamentary draftsmen responsible were, indeed, put to unusual strain in their endeavour to translate into working practice the subtle niceties of refined economic theory. But American experience of the general property tax used in that country shows that in this case also complexities of valuation, with riddles different in kind perhaps but not less formidable in fact than those of our land duties, have prevented altogether a satisfactory and just assessment. The matter has become a byword in a financial system which takes no high place among arrangements made by civilised peoples. We do not propose to cite at length from the authorities on taxation who, we have suggested, could be consulted with advantage. One of the most acute and comprehensive scrutinies of the bad weapon of the general property tax, it is interesting to observe, is that due to the erudition and discernment of Professor Seligman. He pronounces it to be a dismal "failure" in America, and condemns it "as the main source of public revenue," "theoretically," "historically," and "practically" regarded. His reasons for this triple censure will reward attentive study in their application to the special levy upon capital proposed to-day for this country. Adverse opinions are quoted by him from officials charged with the administration of the tax in the United States. One of these experts, for example, has declared categorically that "a more unequal, unjust, and partial system for taxation could not well be devised." Another has said that it is a "farce, sham, humbug." But an unbroken harmony of damnatory judgment is revealed in the text-books, such as we imagine has rarely, if ever, been attained on any other topic in financial controversy. Professor Bastable, with characteristic temperateness but positive definiteness, affirms that there are "sufficient grounds to justify the very general abandonment of the property tax as a leading source of revenue," and writes of it as "merely a form of assessment" and "not really a fair gauge of capacity." Leroy-Beaulieu more drastically pronounces of the American use of the tax : "Rarement, dans la fiscalité moderne, on a inventé d'instrument plus grossier." Dr. Plehn asserts that experience replies without reserve in the negative to the inquiry whether an "effective" "method of assessment" will "reach uniformly and equitably all forms of property." In America this

result is definitely established, when the assessors are officials "in small districts" and are "popularly elected for a short term," and also when the impossible task is intrusted to a "higher," more "impartial" non-local "bureaucracy." Evasion has been general; the assessment of personal property becomes very hard, or impossible, to achieve, and the fair treatment of mortgages or debts or good-will is a veritable crux.

We would once more commend to light-hearted advocates or favourers of the swift extinction of war debt by a special levy upon capital a fresh, or repeated, perusal of the unimpassioned pages in the text-books of taxation and finance which record these verdicts passed by such authorities on a general property tax, and on its *modus operandi* (or perhaps we should be nearer the bare truth if we placed a "*non*" between "*modus*" and "*operandi*") in the United States. Let our wise administrators at any rate pause before they plunge into the treacherous currents of such unquiet seas. Let them pay due heed to the emphatic timely admonitions which the scheme has drawn already from the men of monetary affairs in our own land, like the Chairmen of our great banks, who know from inside the sensitive character of the delicate mechanism of our admired credit system. When they have advised investors to buy war bonds they dismiss from their minds, we may be sure, as impossible or impracticable the vision of a special levy upon capital. We rejoice at least to think that so learned a student, and so competent an expositor, of economic history as Professor Scott should unhesitatingly refuse to fall himself or to lead his many readers into such a snare; and we are amazed, while we regret, that others should have been, as we must think, unwarily or rashly entrapped.

L. L. PRICE

REVIEWS

The Meaning of Industrial Freedom. By G. D. H. COLE and W. MELLOR. Pp. 44. (Geo. Allen and Unwin, Ltd.) 1*s.* net.

THERE is one inestimable advantage in writing a short pamphlet. Brevity compels one to bring forward only the strongest arguments for and the most attractive features of one's plan, and it is not only impossible, it is not expected, that one should be rigidly fair to one's opponents. The brilliant summary, the speaking example, are everything, and forgetfulness that the same moral or scientific principles were ever held by rival theorists is tolerated if the lack of memory is accompanied with geniality and not with acridity. All this, authors may retort, may be said of reviews, though they will seldom admit any brilliancy—but that is by the way. The present pamphlet by Messrs. Cole and Mellor is an admirable example of its kind, both in its merits and its defects. It is written in clear and vigorous style, there can be no mistake as to the authors' aims and methods, it is eminently readable, and it will certainly send the reader to study the larger books on the same subject by the same and other authors, though it may be remarked that they will not always find the same pleasure therein. On the other hand, the characterisation of "reformist" socialists as "materialists" who "see only the results of the present system" and "omit to go deeper and to seek out the causes that underlie it," is sheer humbug, and Mr. Cole and Mr. Mellor either know it or are guilty of intellectual laziness. And surely the half-truth that "the crowning discovery of the nineteenth century was that democratic government made no difference to the life of the ordinary man" might by now be given a well-deserved rest; it has been worked so hard. It is very natural to claim that the "new spirit" has, and alone has, all the virtues, but those whose memories go back farther, unfortunately, than those of the authors must put in a plea for earlier crusades and for the idealism of opinions which to the hasty glance of the young man in a hurry of enthusiasm seem empty and outworn.

To attempt here to subject this pamphlet to close criticism would be unfair, since it would be necessary to bring in matters omitted in it, but treated more fully elsewhere. It is a brilliant advertisement of Guild Socialism, and considered as such it is worthy of all praise. The scheme of thought is now well known —that the workers becoming more class-conscious will organise themselves, not into craft, but into industrial unions with the direct object of taking over the control of each industry, which will then be governed by a Guild representative of all producers in it. Control of industry from this point of view is summed up in "direct management" democratically organised. The State in future will represent the general public, and through municipality and Parliament will treat with the Guilds as to the settling of price and the organisation of demand. "But the intervention of the State would be no less occasional and external than that of the Unions is now. In fact, instead of the State 'recognising' the Trade Unions, the Trade Unions would 'recognise' the State." The interaction between the State and the Guilds is just the most obscure and least satisfactory part of the whole scheme.

The "capitalist" and the "politician" will find it of little use to dismiss the whole affair as fantastic. New ideas are in the air, ideas about industry conducted as a public service and not for private profit, ideas about securing for the worker a share in the control of his trade, ideas about the alliance of businesses, and these are finding shape in talk about Whitley Councils as well as in agitations by shop-stewards and schemes of philanthropic millionaires. If a "solution" cannot now be found, we must at least and as early as possible get into the way to find it.

HENRY W. MACROSTY

Contemporary Theories of Unemployment and of Unemployment Relief. By FREDERICK C. MILLS, Ph.D. Pp. 178. (Columbia University, New York; Longmans, Green and Co.; P. S. King and Co., 1917. Price $1.50.)

THIS volume (number 183) is the first part of Volume LXXIX. of the *Studies in History, Economics, and Public Law*, edited by the Faculty of Political Science of Columbia University, of which the author was formerly Garth Fellow in Economics.

It opens with a sketch of the classic English theory of unemployment, based upon Adam Smith's dictum that what the workman "earns . . . while he is employed must not only maintain

him while he is idle, but make him some compensation for those anxious and despondent moments which the thought of so precarious a situation must sometimes occasion." To this Malthus contributed his theory of population. Practice, however, showed that the increase of wages with the irregularity of employment was an ideal fiction, and regular provision by the State had to take the place of starvation variegated by casual charity. There was no attempt to discover the causes of unemployment, and, to quote the author, "through all the history of the English Poor Law, with its swings from the side of haphazard and indiscriminate giving to that of rigorous and indiscriminate detention, there does not once appear a dictating policy based upon a scientific study of the able-bodied unemployed man, and upon a comprehension of the fact that there are many types and many causes for destitution." Mr. Chamberlain in 1886 in his famous circular introduced the view that special methods of treatment were required for the destitute workman who was not a pauper, and it was carried farther into effect in the Unemployed Workman Act of 1905, which was a failure except in so far as it definitely posed the question of unemployment as a special problem. There have since been two important developments, the Labour Exchanges Act of 1909 and the National Insurance Act of 1911.

Chapter II. deals with contemporary English theories of unemployment treated as the "maladjustment between the supply of and the demand for labour." The causes of unemployment are grouped under four main heads: the loss and lack of industrial quality, where the available supply of labour is not of the quality demanded by contemporary industrial needs; industrial fluctuations; the reserve of labour; and the personal factor. The views of the leading writers who have dealt with these matters are analysed and compared under each head, and following the treatment of each separate cause comes a survey of the remedies proposed. The writings of Beveridge, the Webbs, Hobson, Pigou, and the volumes of the Poor Law Commission furnish the bulk of the material, and authors less widely known are drawn upon wherever they have contributed anything valuable to the discussion. It would be futile to attempt to summarise Dr. Mills's work, for with admirable skill he has succeeded in extracting the essence of each author's original addition to knowledge. The summary has been done with perfect fairness and with a single eye to clear presentation, and the only criticism which one would hint is a fear that in the dissection of each author's work under the specified heads sight has been lost of his general attitude to

industry as a whole, of his "theoria," in fact, or general view. Missing the synoptic treatment of the subject as a whole, the reader is forced to construct with some pain a synthesis of the dissected members, and inevitably misses the bond of union which originally gave them life. Still it will be no great loss if he is driven to study the authors again in their own writings, for the problem is still far from being solved either in theory or practice, and Dr. Mills's volume will meanwhile serve him as an admirable student's notebook.

All English students of unemployment are familiar with English work on the subject, but most of them will be less acquainted with the American contributions dealt with in Chapters III. and IV. These are not reviewed in the same detail, because both in form and in fact they are identical with English theories of the causes of and remedies for unemployment. There are, however, two conditions peculiar to the American problem—immigration and the migratory element—which are, accordingly, treated more fully. A strong body of opinion holds that the influx of vast numbers of unskilled labourers—nearly fifteen millions in the twenty years from 1895 to 1914—has a close relation to unemployment. In support of this view may be quoted not only the American Federation of Labour, but the United States Immigration Commission and Professor Jenks, who agree in advocating restriction of immigration so as to keep out the less desirable immigrants. Others, like Hourwich, Helen Sumner, Leiserson, etc., maintain that the causes lie deeper, and that other conditions must be reformed. With regard to the second condition, the migratory or floating labourer, the United States Commission on Industrial Relations reports (1915) that "there are large numbers of American workers, in all probability several millions, who are not definitely attached either to any particular locality or to any line of industry," and Samuel Gompers declares that their lot is "in some points worse than slavery." A summary of State tramp and vagrancy legislation is given in Chapter III.; and the subject is again touched in the following chapter, where the connection of the tramp and migratory labour problems is emphasised, and the little that has been done towards the solution of either is made evident.

In a few concluding words the author cheers us with the reflection that at least we are on the right path, and that if not entirely clear, "it has at least been blazed." For this optimism we may thank him, as well as for his bibliography.

HENRY W. MACROSTY

Workmen's Compensation and Insurance. By DURAND HALSEY VAN DOREN, A.B., LL.B. Pp. x+332. (Moffat, Pard and Co., New York, 1918. Price $2 net.)

THIS book is No. 5 of the David A. Wells prize essays, and was written in 1917 for the prize of $500 offered annually to the seniors of Williams College and graduates of not more than three years' standing. It may be said at once that it possesses merits much above those usually shown by post-graduate theses, and will be found well worthy of attention by the students of this important subject.

Mr. van Doren points out that the law for centuries treated contracts of employment as purely personal agreements in which the public had no interest. The courts, therefore, held the employer liable only for his own personal fault or culpable negligence; if the employee was guilty of contributory negligence his action failed, and under the doctrine of common employment he took upon himself the ordinary risks of the negligent acts of his fellow-employees, while at the same time he was held to assume all risks in an employment after the master had done everything he was bound to do for securing the safety of his employees. It is true that the employer had certain duties to perform, but the net result of the common law was that for only a small fraction of the number of accidents was the employer held to be liable. This strictly personal view of the relations between employers and employed became antiquated when industry began to assume the corporate form, and closer observation showed that the cost of maintaining the disabled workman in the end fell on the community through the poor-law or charity, for (though the author does not take this point) the strict economic view that the risk was compensated by higher wages was in flagrant contradiction with the facts. A new theory of legislation arose which based itself on the presumption that human fallibility made "negligence" an unavoidable incident of industry, and held that the common weal required that an industry should bear the cost of all accidents to employees as one of its necessary expenses, thus, in the ultimate resort, throwing the cost on the community. "Workmen's Compensation" thus took the place of "Employers' Liability."

The first modern compensation law was the German Industrial Insurance Act of 1884, which after a waiting period gave the injured workman free medical attendance and a pension variable according to the degree of injury, the money being found by trade associations, to which both employers and employed contri-

buted premiums. It has since been in some measure extended, but not substantially modified, and, "in the writer's opinion, it comes nearer to the ideal law than any in force elsewhere." In the United Kingdom the Employers' Liability Act of 1880 removed the doctrine of common employment as regards superior officials, but it covered only a limited and arbitrary range of employments and a too strictly defined classification of accidents. The old law was entirely upset by the Act of 1897 and the re-enacting Act of 1906, which made "the right to compensation a statutory incident of the contract of service" for all accidents to a workman arising "out of and in the course of" his employment, including specified industrial diseases, such as anthrax, metallic poisoning, etc. A liberal interpretation of the terms of the Act of 1906 and the repeated extension of the list of industrial diseases have left the master only the defence of "serious and wilful misconduct," and have placed him virtually in the position of an insurer against accident, a position which he has accepted by transferring his monetary liability to insurance companies, to which he pays premiums.

The German and the English measures have formed the foundation of all accident legislation elsewhere. In the United States the "avalanche of workmen's compensation laws" began in 1911, but the new laws soon came into conflict with the courts, which held that the compulsory liability of the employer without proof of his negligence offended against constitutional provisions forbidding the taking of private property without due process of law. Not for the first time did written constitutions, through their antiquated theoretic basis, prove an obstacle to the new social conscience of the nation. In some cases the difficulty was got over by application of the "police power" of the State, which the court held "may be put forth in aid of what is sanctioned by usage, or held by the prevailing morality or strong and preponderant opinion to be greatly and immediately necessary to the public welfare." In other instances (as in the New Jersey law) the constitution was dodged by applying the new principles of law as an alternative in all cases where there was not as part of the contract of hiring an express statement in writing, prior to the accident, that the provisions of the Act were not intended to apply.

We need not follow the author into his lucid analysis of the existing United States laws, which fall into two groups, one admitting the right to compensation as a general principle, the other in "a surprising number of States" applying it only in

extra-hazardous employments and leaving the workman to his usual legal remedies in other cases. Farm-labour and domestic service are generally excluded and also professional employees; the interpretation of "injury" is usually generous, and that of "accident arising out of and in the course of the employment" is liberal, but except in California occupational disease is excluded. Drunkenness is generally a bar to recovery of compensation. "Very few of the American Compensation Acts are compulsory in their operation with regard to private employments"; compulsion is usually effected indirectly by the "presumption of acceptance," as in the New Jersey law.

Workmen's compensation means a practical compulsion on employers to insure, and in a number of States insurance is actually compulsory. Private insurance companies take over the risks as part of a business, whose object is to make profits, and the workman is naturally at a great disadvantage in negotiating with the skilled agents of the companies an adequate compensation for his particular injury. There is consequently a large body of opinion in favour of the German plan of compelling the employer to insure his employees in a mutual insurance fund. The American insurance companies are in arms against the obvious tendency towards compulsory State insurance, while State commissions of inquiry show a strong bias towards the "socialistic plan." The comparative honesty and ability of State and private institutions are hotly debated, but Mr. van Doren is whole-heartedly in favour of State insurance funds, adducing those of California, Maryland, Wisconsin, Montana, Ohio, and New York as showing superior service and cheaper rates. Greater security, more equitable distribution of insurance costs, absence of waste in advertising and duplication of staffs, stimulation of public interest in the prevention of accidents, are other merits which with close argument he attributes to State insurance. The ideal law, he holds, should be a compulsory law, covering all employments, including casual workers, outworkers, public employees, and highly paid officials, and applying to all accidents directly or indirectly due to the employment and also to occupational diseases. Gross carelessness is exceptional, and intoxication should not stop a claim to compensation while the law permits the public sale of liquor. The waiting period should be short, and two-thirds of the average wage is sufficient compensation for total disability, except in low-paid trades, where there should be a minimum payment based on the number of dependents. In the case of partial injuries the prospective effect should be taken into

account in making the awards. "The ideal law should provide for a State insurance fund, in which employers should be forced to subscribe."

With this summary we part from a highly suggestive book.

HENRY W. MACROSTY

The New Tariffism. By J. M. ROBERTSON. (London: Allen and Unwin, 1918. Pp. 63. 2*s.* 6*d.* net.)

FEW writers are more capable of pulling to pieces the ill-considered report of a protectionist committee than Mr. Robertson, and in this little book he has dealt patiently and faithfully with the Committee which sat under Lord Balfour of Burleigh to "consider the commercial and industrial policy to be adopted after the war." He shows the absurdity of demanding reparation in kind from a defeated country, and at the same time endeavouring to prevent exports from it. He argues very reasonably that to decide to refuse Germany access to raw materials is scarcely the way to secure an enduring peace. He sets forth the impossibilities of the "four-decker" discriminatory tariff, and the difficulties of the pseudo-free-trade policy of subsidies, exposes the humbug of "key industries," and even brings himself to examine carefully the paragraph in which the Committee declared it "undesirable that any industry of real importance to our economic strength should be allowed to be weakened by foreign competition."

In the last chapter he suggests the probability of a free-trade Germany. Whatever may be thought about Germany in particular, there is a good deal of reason for suspecting that the exultation of protectionists in the supposed triumph of their principles is likely to be short-lived. Protectionism, so far as it is not the result of pure fallacies, is founded on a desire for economic independence. The superlative protectionist is the hermit who declines to buy anything from his neighbours, and relies entirely on "home industry" for the supply of his needs. A little better is the exclusive village or town which tries to do the same. A little better still is the modern large "country" inhabited by a "nation" (real or pretended) which adopts the same principle. The tendency of history has been to enlarge the area to which protection is applied, and, in spite of the possible formation of some new States, there is every reason to believe that the ultimate effect of the war will be the formation of larger units; indeed, the protectionist proposals of the moment themselves contemplate the

creation of protected areas consisting of the whole British Empire and even of the whole of the Allied countries. Now the bigger the area the less important is the refusal to buy from outside, till at last, when the area is coincident with the surface of the globe, its importance sinks to nil. Another thing worth noticing is that the fiscal importance of protection is greatly diminished by the existence of the enormous national debts which the war, aided by the inflation policy of the governments, has hung round the necks of the more solvent of the great States—the more solvent, we say, because the less solvent will find some way of ridding themselves of the burden. To take our own case : when the national expenditure was less than two hundred millions a year, the five or possibly even ten millions which could have been obtained by protective duties without causing much discontent seemed to some politicians a very handsome addition to the revenue ; now, with expenditure of four hundred millions a year for debt and pensions alone, already contracted for, and visions of five hundred millions for preparations for the next war, and an indefinite amount for providing everyone with houses and maintenance for children and everything else that man can desire, the ten or twenty millions which might conceivably (at the present doubled prices) be got out of protective duties without unpopularity appear a mere drop in the bucket not worth worrying about. And lastly there is the "menace from the air." It does not seem at all likely that movement through the air can be kept under such severe control as to enable very high duties to be imposed or continued on articles of small bulk. Conditions will revert to those of the eighteenth century, when protection was either limited or tempered by smuggling.

EDWIN CANNAN

(1) *Tra le Incognite—Problemi suggerite dalla Guerra.* (2) *Politica—Criteri ed Eventi.* By PANTALEONI MAFFEO. (Bari : G. Laterza e Figli.)

IN these two volumes Professor Pantaleoni has collected articles published in 1916 in the *Giornale degli Economisti*, and others contributed between July, 1916, and June, 1918, to *La Vita Italiana*. An address given in April, 1916, to a meeting of journalists is also included.

The articles in the *Giornale degli Economisti* on the economic lessons of the war, which are an important contribution to the

literature of the subject, have already been noticed in the ECONOMIC JOURNAL in the issues for June and September, 1916. The contents of the address mentioned above on "Italian Problems after the War," form a useful supplement to these articles. The interest of the papers which appeared in *La Vita Italiana* is mainly political. But the bearings of economic factors on national policy are the subject of interesting remarks in papers on German and British Imperialism and on the Royal Commission appointed by the Italian Government for the study of the problems which will demand solution after peace has been declared.

This is not the place to discuss at any length the author's political views. They are characterised by an ardent love of Italy, and by a conviction that the statesmen of all the Allied countries, including President Wilson, have quite rightly fashioned their policy, and will in future continue to fashion it, with the one object of promoting the interests of their own countries, and merely use for political ends popular catchwords such as "the rights of nationalities." The heads of the Socialist Party are vehemently denounced as traitors to Italy and willing tools of Germany. "The Germans and the Austrians," he says, "are still in Italy. But they are to be found in the official Socialist Party . . . the heads of the Party are the wreckers of the war." They are roundly charged with direct responsibility for the Caporetto disaster. The indignation expressed is extremely natural. But there is no use in shutting one's eyes to the fact that, whatever the actual motives of the individuals attacked, they have only carried out with ruthless Italian logic the principles of the International Proletariat.

In his address to the editors, Professor Pantaleoni pointed out that after the war the Central Empires will commercially be in the position of bankrupt companies forced, much to the detriment of their solvent competitors, to sell out at prices much below the cost of production. The depreciation due to excessive issues of paper money will lead to dumping on an enormous scale. Differential import duties will not protect the victors. Even if they can pitch them high enough to protect their home markets they must run a serious risk of losing their foreign markets. So far as Italy is concerned there should be no hesitation in claiming large indemnities, which should be spent on harbours, railways, and the canalisation of the Po. One of the greatest wants of the country is a mercantile navy. Before the war her steamship companies were German concerns using the Italian flag. Those who argue that owing to the want of coal and iron Italy can

never be a great industrial country overlook the example of Switzerland, which is equally poor in minerals. Yet, while its population amounts to one-ninth, its trade is equal to one-half of that of Italy. This is due to the education and energy of the people, and to the possession of a Government which does not strangle industry.

An interesting table is given in the same address to show that in 1916 the economic position of England was relatively favourable, since it was spending on the war an amount only equivalent to about two-thirds of its annual income,[1] while the corresponding figures for Germany and France were 72 and 94 per cent. respectively. France has achieved enormous moral gains, and has the first claim to material recompense.

In the paper on German and British Imperialism, Professor Pantaleoni points out how the policies of the two nations have been affected by economic considerations. The scale of modern industrial undertakings tends ever to become vaster. The number of the factors of production is increased and interests become international. The risk of loss by the temporary failure of some particular factor, for which the undertaking may be dependent on a foreign country, becomes acute. Hence the anxiety to obtain security by international agreements, treaties of commerce, customs unions, the establishment of spheres of influence, and the like. German Imperialism aims at such an extension of territorial sovereignty and political hegemony as will effectually safeguard German industry. English economic policy has continued to be one of free trade, because three-fourths of the commerce of Great Britain is with foreign countries and only one-fourth with its own Colonies and Dependencies. The abandonment of Free Trade and the adoption of Imperial Preference involve grave commercial loss, and can only be justified on military and political grounds.

The two articles on the Italian Royal Commission contain a vigorous criticism of Government interference with trade and agriculture during the war. Extreme scepticism is expressed as to the capacity of a Commission under the influence of a bureaucracy, ignorant of economic science and swayed by political motives, to frame any wise economic programme for the difficult period which will follow the war.

J. M. DOUIE

[1] Or three-fourths, if loans to Allies are included. Mr. Bonar Law has recently stated that, including such loans, our war expenditure in the last 18 months has been at the rate of seven millions daily, and that it has been equal to our whole estimated annual income valued at pre-war prices.—J. M. D.

La Hacienda Española. Los Impuestos. By FRANCISCO BERNIS. (Biblioteca de Cultura Moderna y Contemporánea.) (Barcelona: Editorial Minerva. Pp. 360.)

IF Aristotle had been conversant with political economy as we understand the study, he would probably have regarded it as a branch of practical wisdom (φρόνησις), as he has regarded political science and economy in his own sense of the terms. He would have approved a treatment of the subject which combines accurately ascertained particulars with major premisses not very abstract, not too remote from human use. Such is the character of the reasoning which Professor Bernis employs in this important contribution to the art of political economy. A good example of his method is afforded by his discussion of the protective duties on imports into Spain (Chap. VII.). In the case of wheat, for instance, he first shows that the quantity imported is small relatively to the home supply; not 2 per cent. in some years, at most not much more than 10 per cent. And yet the import duty on that small fraction avails to raise the price of the whole supply. It is calculated that the Spanish consumer has to pay to the home producer of wheat an addition of 200,000,000 pesetas (say £8,000,000) per annum in consequence of the protective duty. Similar calculations are made with respect to flax products and cotton textiles. The protection on these two industries costs the consumer annually 225,000,000 pesetas. Again, the import duty on *bacallao* (ling), though fiscal rather than protective, is objectionable. This conclusion is not deduced from the first principles of Free Trade. There is here no trace of the far-fetched reasoning by which Adam Smith argues that "in the price of leather, for example, you must pay not only for the tax on the leather of your own shoes, but for a part of that upon those of the shoemaker and the tanner." The Spanish economist is thinking only of the humble family budgets which are aggravated by the price of ling. He had previously shown that the average family income leaves no margin for overcharges. About three francs a day is assigned as the income of an average family of five, a figure deduced from the national income, which is less than £240,000,000, account also being taken of taxation (p. 124). The author's temperance with respect to abstract generalisation is further manifested by his classifications of imposts. Referring to Professor Bastable's distinction between the "economic" and the "empirical" or "fiscal" method of classification, he decidedly prefers the latter. His own divisions of the subject are indeed so con-

cretely Spanish as to present some difficulty to the English reader. But two or three objects of taxation stand out prominently, such as unearned income (*adquisitiones no profesionales—no ganadas*), unearned increase of property, inheritances. These categories are selected for differential taxation, in pursuance of the author's leading principle, to adapt the burden of taxation to the capacity of the taxpayer. No one is more deeply imbued with Mill's doctrine as to the adjustment of taxation, "not on grounds of arithmetic, but of human wants and feelings." How widely that sentiment prevails in the modern world appears from our author's extensive outlook upon the finances and economic literature of other countries. Now he cites Professor Pigou to the effect that every cause which, without diminishing the national dividend, increases the consumption or saving of the poorer classes increases the national welfare; now he refers to Pierson's doctrine of equal sacrifice; and the examples of modern Greece and New Zealand are adduced. But most frequently, and apparently with most enthusiasm, the precepts and examples furnished by Germany are held up for our admiration. We could wish indeed that the style and structure of the treatise had been less affected than it seems to have been by German literature. A French model would have been better adapted to the difficult task of presenting the details of a tax-system to a foreign reader. But this gentle stricture applies only to the form of the work, not to the content of fact and argument. We have reason to accept his facts, having compared samples thereof with the observations and statistics which his eminent countryman, Professor Florez de Lemus, presented in the Spanish Supplement to the *Times* (June 29th, 1914). The rather more general propositions which Professor Bernis employs in his reasoning also command our assent. But we ought not to conceal that some of the higher generalisations which he has rather professed than used appear to us disputable. We cannot agree with the principle, which he seems to entertain, that protective duties should form the rule, their excess only being objectionable (pp. 194, 202). We differ, too, altogether from the theory of value which he has countenanced in his powerful study on "Karlos Marx" (1912). But these vagaries of abstract theory do not affect the practical conclusions. The author might perhaps be likened to a distinguished predecessor, Ustarez, whose judgment on a matter of taxation (the effects of the Alcavala) obtained the approval of Adam Smith, though his views on customs duties would not be regarded by a Ricardian as "sound." But it would be unjust to the modern

professor to rank him with a mercantilist, however eminent. Rather our author, by his study of foreign theories and by his skill in the art of taxation, recalls Florez Estrada. We may say, at least, that he resembles great predecessors in having made a valuable contribution to the economic literature of his country.

F. Y. EDGEWORTH

The Danish West Indies under Company Rule (1671–1754). By W. WESTERGAARD, Ph.D. (New York: The Macmillan Co. 1917.)

ANYONE who is interested in the subject of Colonial development, by means of Chartered Companies, will do well to study Dr. Westergaard's learned and interesting volume. The book was written before the acquisition of the Danish West Indies by the United States; and it is fitting that the first account of these islands, based upon contemporary records, should be the work of an American-born student, though of Danish extraction.

The three small islands that formed the Danish West Indies were not in themselves of great importance; but a detailed study of their history serves, in Dr. Westergaard's words, to disclose the rise of a fairly typical plantation society and to "show on a small scale the sort of thing that took place in West Indian lands in the seventeenth and eighteenth centuries on a large scale, such as the rise of the sugar industry and the slave trade."

Few companies have started under more favourable circumstances than the Danish West India Company. It was under the close patronage and favour of the Crown, at a time when the Monarchy in Denmark had reached the zenith of absolutism; but it failed to solve the problem of reconciling its own interests with those of the planter colonists; and when it was bought out by the Crown in 1754 its dissolution was approved by its own members, as well as by the outside community. Still, though "with its gaze fixed upon material rather than human interests," it "had too often pursued a selfish policy," "it had piloted its turbulent and heterogeneously composed colonies through a period of eighty-four years and handed over to the King a domain the vigour of whose population had been attested time and again by their ability to protest effectively against alleged violations of their rights." The volume throws fresh light upon the dark picture of the African slave trade; and an interesting chapter describes how the Great Elector, by means of the Brandenburg Company at St. Thomas,

sought to set up a depôt in connection with his West African stations. The whole policy proved a financial failure, and received its quietus at the hands of the shrewd and stingy Frederick William I., who was the last person likely to risk money or expense on a doubtful venture.

H. E. EGERTON

Life According to Jones. By. "ENLIGHTENED SELFISHNESS." (London: Co-operative Printing Society. 1918. Pp. 346. Price 6s. net.)

THE pseudo-anonymous author of *Life According to Jones* puts forward no personal claim to the attention of economists and statesmen. Nor need he do so. The freshness and originality of mind with which he approaches the commonplaces of life are apparent on the first page of his introductory chapter. Moreover, Jones "does not care much if the book fails to secure readers because he feels that writing it has been its own reward. He himself has received both mental and moral benefit by writing it." He describes it as "the results of his meditations during his seventy years of life. They are like a series of friendly conversations, a kind of confidential outpouring of a simple soul."

Although he discusses the psychology of babies and of adolescents, religion and dogma, guardian angels and immortality, and devotes a chapter to "Maturity, Marriage, and Maternity," Jones nowhere discusses the problem of domestic service. His point of view is that of the ninety per cent. of the population who even before the war were not waited upon by domestic servants. He is, however, no Bolshevik, and gives the remaining tenth their due importance in his general survey of life. His method is to take a general view of the opinions held by mankind on any special subject, from China to Peru, or from the earliest times to the present and then to his own. It is not until the last third of the book is reached that he seriously discusses politics and economics, although several *obiter dicta* give indications of the trend of his thought in the direction of reform.

It is in the chapter entitled "I and my Neighbour" that Jones enunciates the basis of his practical philosophy: "Jones thinks that a practical way of doing to your neighbour as you would like your neighbour to do to you is to carry out the maxim of 'enough.' When any person has enough he should be satisfied. No person is entitled to a surfeit, for it brings on disease, which may be

physical or mental, according to the character of the surfeit." "There is among the well-to-do a generally prevalent dread that the people who have not 'enough' would abuse or misuse their opportunities if steps were taken to give them more. This is unconscious egoism and short-sighted selfishness. We overlook the fact that in surfeiting ourselves with an excess of pleasure, luxuries, power, or idleness we are doing on a grand scale that which we are frightened of our poor neighbours doing on a small scale, if they had the chance. Give them the chance. Never mind if they do abuse it or misuse it. Try to persuade them to use and not abuse. If we fail, it is not then a blot on our consciences, although it may be a blot on theirs."

This belief in the harm done both to those who have too little and to those who have too much by the present system of distribution of wealth arouses no bitterness of soul against the wealthy, and it is with a mind full of the milk of human kindness towards the latter that Jones proposes various drastic methods of relieving them of their opportunities of surfeiting. His optimistic faith that "life is good" enables him to sum up the political outlook at the end of 1917 as "not altogether unpromising. There is no doubt a strong reactionary element which is aiming at once more securing class-domination. But this reactionary section is probably too small to do serious mischief, and may perhaps be as easily removable as is the scum from the top of a vat of new beer. For there seems to be, among a still larger section of the most influential classes, a feeling of complete confidence in the desire of the democracy to be just and to act wisely. . . . Jones shares this confidence in the democracy." "In reality the wealthy and influential classes have little or no fear of the working classes acting unjustly. They may sometimes pretend to have this fear; but what a section of them often have is a fear that the masses will insist upon the classes ceasing to act unjustly."

Jones meets the problem of paying off the War Debt by again affirming that "enough should be sufficient." "All above that standard might well be cumulatively taxed up to a maximum of income, which should not be exceeded by anybody until the country's debts have been liquidated. We have no right to be luxurious, not to speak of superlative luxury, so long as we are in debt, and we are all, as the lawyer would say, jointly and severally liable for these debts up to the full extent of our resources." After meditation he takes £500 a year as a sufficient income, but his chivalry towards women makes him insist that the incomes or earnings of husband and wife should be added

and halved, the half being deemed to be the income of the husband and the other of the wife. A wife being treated as an independent person, the family income judged sufficient is £1,000 a year.

"Above £500 a year it would be easy to arrange a graduated cumulative tax on a basis which would not press unduly on the lesser incomes. For example, on all incomes between £500 and £1,000 a super-tax of 2s. in the £ on the amount of income above £500 could be imposed. On the £500 between £1,500 and £2,000 the super-tax could be raised to 4s. in the £, then to 6s. for the next £500, and 8s. for the sixth £500, making a total income of £3,000 a year. The distinction between earned and unearned incomes might justly be continued. This gradation would only increase the taxation on £3,000 incomes from 6s. to 8s. in the £. Above £3,000 incomes the cumulative tax might be so adjusted on a steadily increasing gradient, that no individual should be allowed to have an income of more than £10,000 a year, which would mean a joint income of £20,000 for a married couple. Beyond this, all should go to the State until the National Debt has been extinguished."

Jones further suggests that as a corollary to the principle of an "enough" income tax, it would be perhaps advisable to readjust the death duties, the law of entail, etc., so as to prohibit anybody receiving property who is already in possession of an income of, say, £5,000 a year. He proposes that all unearned increment on land or on any other item should be appropriated by the nation, as trustees or representatives of the people who have collectively created it. "In deciding on the method of taking, it is probably wise to adopt that one which will least discourage individual exertion and enterprise. For the principal drawback to collectivism is its tendency to strangle personal initiative and energy. The ideal is to have such a combination of stimulus and restraint as will secure the best results from both individualistic instincts and collective organisation."

In the United Kingdom, where a group of less than 30,000 people have a total income of more than 220 millions (viz., the group of persons with incomes exceeding £3,000), or one-sixth of the gross income brought under the review of the Inland Revenue Department, it is difficult to believe that any serious harm would be suffered by these super-tax-payers if, for some twenty-five years or so, their expenditure were limited by taxation in the way suggested by Jones. Perhaps at the end of that period the super-income receivers might follow the example of the princess in the fairy-tale, who, similarly treated by her fairy godmother, until such time as she had learnt to sympathise with the sufferings of her subjects, eventually begged never again to be submitted to such temptation as wealth afforded.

There are few subjects on which Jones does not arrive at positive conclusions, but he may fairly claim that on no subject is his mind closed to new truth. C. E. COLLET

Le Gouvernement Général de l'Algérie (1891–1897). Par JULES CAMBON. (Paris: Librairie H. Champion, 1918. 8vo. 448 pp.)

IN 1891 the French Government took in hand the reform of Algerian administration. The attempt to govern the colony from Paris had not been fortunate. The Senate appointed a Commission under Jules Ferry to study the situation. Monsieur Jules Cambon was made Governor-General, and discharged his duties with great success, until in 1897 he was sent as Ambassador to the United States. During his six years in Algeria he was frequently called upon (though not a Member of Parliament) to reply on behalf of the Government to interpellations in the Senate and the Chamber, and his speeches have now been collected in this volume with a preface by himself.

It fell to M. Cambon to propose, to exercise, and to defend the devolution of larger powers upon the Governor-General and the representatives of the local residents. It is a severe ordeal to submit again to the public speeches first printed in the Parliamentary reports of twenty or thirty years ago, especially when they are speeches of circumstance. The orations of an Albert de Mun or a Jaurès endure the test because, apart from their rhetorical excellence, they afford a comprehensive picture of the social philosophy of the speakers. A critic of the Government who can make an occasion and choose his subject is in a more favourable position to round off his discourse than an official who is on the defensive and is restricted to the task of replying briefly to specific attacks.

Notwithstanding these drawbacks, the speeches of M. Cambon are well worthy of preservation in this collected form. They are full of wise and witty things, meriting record in the Pilgrim's Scrip of the young official who is alive to the fact that public administration is a matter of science and of organised erudition, and not merely of tact, intuition, and routine. They are, or might be, of great value from their mere suggestiveness. In Matthew Arnold's dichotomy—the Literature of Knowledge and the Literature of Power—these pages fall into the second group. They show us a great administrator at work. They fill

us with admiration of his zeal, his fulness of knowledge, activity, wisdom, and high moral purpose. To the clearness of principle which we associate with the French mind is added the quality, which we sometimes regard as peculiarly English, of flexibility of adaptation in a practical spirit. An interesting comparison might be made between the mentality of M. Cambon and that of Lord Cromer. Each of them leaves a record of honourable and useful service in the delicate and difficult task of the development of the north of Africa, and the history of their work is valuable in the instruction and inspiration which it affords to those who follow them in the career of administration.

HENRY HIGGS

NOTES AND MEMORANDA

The Readjustment of German Finance by a Capital Levy.

I.

Dr. Herkner's recent compilation, mentioned among "New Books" in the Economic Journal for September, 1918,[1] includes two articles which are likely to be of interest to English readers as dealing with the project of a capital levy for the discharge of debt in Germany. The authors, Prof. Karl Diehl, of Freiburg, and Prof. Heinrich Dietzel, of Bonn, deserve attention, not only on account of their ability and learning, but also as singularly impartial, each of them considering carefully arguments on the side opposite to that which he has himself adopted. We regret that we have not space for translations of the entire articles.

We must omit the first sixty-four pages of the eighty-three which form Professor Diehl's article advocating a unique non-recurring levy on capital, *Die einmalige Vermögensabgabe.* We may, however, notice in the omitted portion the author's strong conviction that for the Germans to show themselves capable of such a sacrifice in order to pay off the national debt would promote their credit in international trade.

The section of which a translation here follows purports to consist of views for and against the levy on capital which have been expressed during the war.

Professor Dietzel's article will appear in a future number of the Economic Journal.

Opinions for and against the Levy on Property, as summarised by Professor Diehl.

It has happened before that after wars leading to great indebtedness proposals have been put forward for a levy on property to be paid once for all. There is thus nothing surprising in the reappearance of this device in connection with the present

1 *Die Neuordnung der deutschen Finanzwirtschaft.* (Schriften des Vereins für Sozialpolitik, 156 Band.) München und Leipzig, Duncker and Humblot, 1918.

world-war, the debts arising out of which leave far behind all that has ever been known in the past. Nor can there be any doubt that the idea has many more adherents than might appear from the relatively few voices which so far have been publicly raised in its favour. There are many grounds of expediency on which it seems undesirable to come forward with projects of this nature before the final decision in the war has been reached. All the same, a few noteworthy voices have already been heard, both for the project and against it. I confine myself here to expressions of opinion proceeding from Germany and Austria, and I deal with a number of politicians and representatives of science who have declared their views on the subject.

(a) *Partisans of the Levy: Stresemann, Gothein, Bernhard, Beusch, Jaffé, Steinberg, Dub.*

The idea of a levy on property was introduced to the general public and became the subject of animated discussion in connection with a quite short utterance on the part of Herr Stresemann, a National-Liberal Reichstag deputy. Speaking on January 7th, 1917, at a session of the National-Liberals in Hanover, he said that "drastic levies on property would be necessary, including even small properties in their scope, and amounting to from a quarter to a third of their value." [1]

Herr Gothein, a Reichstag deputy and a member of the "Freisinnige" party, also defended a levy on property in an article in the *Hilfe* of January 25th, 1917. He argues there for "a single, drastic confiscation of property of every kind, leaving the smallest properties free and rising by a graduated scale up to 25 per cent. on the largest properties. Reckoning the total property so accessible at 300 milliards of marks and the average percentage of the levy at 15—which would mean starting the scale at properties of 1,000 marks and a rate of 5 per cent.—the amount realised would be 45 milliards of marks." Gothein recommends a series of mitigations in the enforcement of the levy, especially in the case of landed property: "Where the levy falls on landed property and must in part be deferred, a mortgage seems to be called for, which, however, ought to rank after other mortgages." The technical fiscal difficulties attending such a levy are set out by Gothein with great minuteness. His conclusion nevertheless is: "It needs careful examination to determine whether the difficulties of assessment involved in an Imperial property tax of this

[1] "Austriahungaricus," *Einmalige Vermögensabgabe?* Graz and Leipsig, 1917.

confiscatory nature are so great that the plan must be abandoned. In spite of all the serious objections that may be raised against it, I think that the liquidation once for all of the greater part of the loss incurred by the German people through the war is preferable to the endless nightmare of standing taxation on a gigantic scale."

Georg Bernhard expresses himself with greater reserve and scepticism on this "bitterly serious " problem. He takes the view that the measure in question is open to so great objections from the standpoint of political economy that if at all possible it ought to be avoided. The only means of avoiding it, however, would be a large war indemnity; failing this, Bernhard, too, holds the property levy to be necessary. He estimates accessible private property at about 150 milliards, and assumes that the average rate of levy would be 30 per cent. The total yield would then be 45 milliards. "The fundamental principle from which the idea of a confiscation of property sets out is sound; it is a matter of reducing our national burden in some way or other from about 120 milliards to 75. The only question is whether the confiscation of property is the right mode of procedure. If it were possible to raise the amount required in some other way, then for a reason worth some attention that other way would be the more advantageous. If, for example, we succeed in obtaining the sum of 40 or 45 milliards from somewhere outside the country, our own financial strength remains unimpaired. We still have the 4½ milliards to raise, just as much as in the other case. But the sources from which this amount is to be drawn naturally flow much more copiously." [1]

Paul Beusch entitles his essay "A Great Tithing." His proposal comes to a single levy amounting to a tenth of all property. He thinks that in this way a sum of from 36 to 40 milliards would be obtained. He points to the provision in the law on war profits taxation, according to which tax has to be paid by those who have not lost more than 10 per cent. of their property: "This is as much as to say that every man ought to think himself lucky who has not lost more than one-tenth of his property during the war. Consciously or unconsciously, the tithe is assumed as the normal war loss. Severely as the individual in general may feel such an impost, the vital nerve of private economy would not be cut by it, special cases apart, so far as properties of 50,000 marks and upwards are concerned. For smaller properties lower rates would

[1] Bernhard, *Kriegsentschädigung*. "Plutus," January 3rd, 1917, p. 4.

come into play."[1] Edgar Jaffé also thinks that the economic disadvantages of taxation permanently maintained at an oppressive level are so great that a capital levy is to be preferred. He emphasises the importance of an Imperial Property Office, to be entrusted with the valuation and administration of such portions of property as could not be handed over to the State in the form of cash: "The right procedure would be, not to transfer the ownership of such properties to the State, but to allow them to remain in the possession of the contributors, managed by them for their own account and at their own risk, but burdened, for the benefit of the State, with mortgages with high amortisation quotas. Naturally, the State would be at liberty to realise these mortgages by transference to third parties, so as to acquire the means for a large-scale reduction of debt. It is obvious, too, that the Imperial Property Office must be entitled, in particular cases, to take over properties offered to it in extinction of the levy obligations, provided it has an economic interest in so doing. (We may instance the development of State ownership in mines, transport undertakings, land, and houses, both for purely economic purposes and in connection with land and housing policy.) The decision, however, should in every case depend upon the economic and social aims of the State, and not on the wishes of the contributor."[2]

Julius Steinberg, bank director, of Bonn, also admits the possibility "that later on a property levy of some magnitude might be collected in a single payment, such as would enable us to extinguish at a stroke a considerable part of our Imperial debt." But according to his view it is not admissible that this levy should even approximate to those dimensions with which over-zealous finance cranks have spread uneasiness in the circles of the propertied: "A sensible Government will never allow itself to screw up the direct taxes to such a height as seriously to check that renovation of capital which is so necessary for our national economy." He estimates that the German national wealth, having regard to the depreciation of money, should now be set at about 370 milliards, and he puts his case thus: "Assume that for the purpose of debt-extinction a 10 per cent. property levy were to be raised, payable in four yearly instalments; the whole amount of the first four War Loans would by this means be wiped out of existence.

[1] Beusch, *Eine grosse Zehntung.* In "Deutsche Arbeit," February. 1917, p. 62.

[2] Jaffé, *Kriegskostendeckung und Reichsfinanzreform.* Archiv für Sozialwissenschaft und Sozialpolitik, 1917, p. 722.

Such a levy would, indeed, create certain difficulties for landed property and for capital sunk in industrial enterprises. But the four times repeated impost of 2½ per cent. on the property yearly would only in the rarest cases be intolerable. And if by the end of the present year the national debt were to reach 80 milliards, then, after that 10 per cent. blood-letting, 45 milliards would still remain to be dealt with by interest and sinking fund. The State, however, has at its disposal so abundant and so manifold sources of revenue that we need not in reality be under any uneasiness as to the raising of the sums required."[1]

The idea of a levy on property passed from Germany to Austria, and here, too, as Dub tells us, it has been warmly defended after initial opposition.[2] He mentions the tax on capital introduced in Hungary as early as the spring of 1916—a tax levied yearly on circulating capital and equal to ½ per cent. of its amount, roughly equivalent, at present values, to a single exaction of 10 per cent. Dub, however, doubts whether this provisional rate would permanently meet the case of Austria-Hungary. High-scale levies on property are mooted, so he tells us, beginning with low rates on small capitals, and rising to 20 or 25 per cent., possibly even higher, in the case of the largest millionaire properties: "The burden of this levy is to be mitigated by spreading it over a series of years. Assuming that 20 per cent. of the capital were to be paid in ten yearly instalments, this would amount to a tax of 2 per cent. on the capital during the period. This would not be an oppressively burdensome impost, because the interest on the War Loans, in which so large a part of the newly arisen properties has been invested, has increased during the war by about 2 per cent., and the owner of these investments would hardly pay more to the State than the additional income due to the increased rate of interest; in fact, he would pay the property tax out of his augmented income without loss of capital. But it is absolutely necessary, if the property tax is not to create an impression of gross injustice, that it should not be limited to circulating capital, but should affect to an equal extent immovable property, land, and the dead hand."[3]

[1] Steinberg, *Deutschlands Kriegslasten und seine wirtschaftlichen Kraftquellen.* Deutsche Kriegsschriften, vol. XXII., p. 26.

[2] Dub, *Oesterreich-Ungarns Volkswirtschaft im Weltkrieg.* Sammlung von finanz- und volkswirtschaftlichen Zeitfragen, vol. XXXVI., 1917.

[3] *Ibid.*, p. 73.

(b) *Opponents of the Single Property levy: Mombert, "Austria-hungaricus," Heilbrunn, Konietzko, Friedberg.*

The arguments by which Mombert opposes the property levy from the standpoint of political economy are particularly important, as they comprise a full discussion of the influence of a property levy on the formation of new capital. Mombert's essay gives the best exposition of the economic arguments against the expedient in question. He has further an objection against the time chosen for the application of the levy on property. It would be dangerous to raise a levy amounting to milliards "at a time when the whole national economy is in unusual need of recuperation, when every owner of an enterprise is striving to carry on his operations so far as possible as before the war, and is therefore in search of the means to procure the necessary raw materials and to complete and renew his instruments of production, at a time when production and consumption are seeking to re-establish their former equilibrium, and when efforts are being made, precisely in the interests of a restored national economy, to build slowly up again the old edifice of credit, so much of which has crumbled under the war." [1]

The anonymous pamphlet *Einmalige Vermögensabgabe?* by "Austriahungaricus," is specially directed against Stresemann. The property levy is here said to offend more particularly against the principle that taxation ought not to disturb the economic process: "It is hardly to be believed that a large-scale levy on property could maintain this principle intact, if it be considered how many concerns would become bankrupt to-day if they were not helped over the war-time by official control, moratoria, and other means. None of these concerns could support a large property levy; they would all be involved in a common catastrophe. But we will not confine ourselves to the weakest businesses. What of a factory, which often enough has very little ready money at its command? Surely the manufacturer cannot send his more dispensable machines to the pawnshop? 'No, certainly not,' we shall be answered; what he must do is just this: Suppose, for example, a 33·3 per cent. levy is raised, he must take out a corresponding mortgage on his premises. This sounds feasible enough, but it has to be remembered that the case would be exceedingly frequent, and that there would be an enormous strain on the mortgage market. The consequence would be a gigantic rise in

[1] Archiv für Sozialwissenschaft und Sozialpolitik, vol. XLIII., part iii., p. 756.

the rate of interest, and the manufacturer would be compelled to raise the price of his products very considerably. A new rise of prices would thus come about. But *are* present prices, after the increases to which they have already been subjected, capable of any considerable addition? In the case of almost all commodities, especially the most indispensable necessaries, certainly not." [1] This writer also thinks the rate proposed by Stresemann, viz., 33·3 per cent., too high: "Suppose the last percentage applied; the yield would be 86·7 milliards of marks in Austria-Hungary, 143·3 milliards in Germany. Now the peace debt of the Double Monarchy was 12 milliards of marks, the war debt up to the end of 1917 47·2 milliards—in all, 59·2 milliards. The peace debt of the German Empire was 21 milliards, the war debt up to the end of 1917 74·5 milliards, and the total 95·5 milliards. Thus, at the rate proposed by Stresemann, the yield of the levy would both in Austria-Hungary and in Germany be nearly double the war debt up to the end of 1917, and more than half as much again as the total debt at that date." [2]

Heilbrunn is another writer who has raised objections against the levy on property from the point of view of the formation of capital.[3] "The field open for direct Imperial taxation can hardly yield sums of great magnitude if the resources which should go to the formation of new capital are not to be unduly tapped." Heilbrunn goes on to investigate the question of whether that impressment of property for the purpose of debt-extinction which is imperative on political and social grounds could not take a form in which it would be free from that economic disadvantage. He starts from the assumption that at the end of the war we shall have borrowed 100 milliards of marks, and that in addition to the interest on this sum the Empire will be called upon to provide annually 1·5 milliards for pensions and similar payments. Interest and pensions would thus amount to 6·5 milliards of marks yearly, in addition to which would come yearly amortisation which he sets at 2 per cent. What he proposes, then, is this: that the burden of interest-paying should be met by laying upon property and the higher incomes the obligation of taking up bonds issued by the State, paying no interest, and redeemable at par by definite yearly quotas. "This obligation diminishes every year in proportion with the extinction of the War Loans. Thus in the eleventh

1 P. 11–13. 2 P. 24–25.

3 *Cf.* the essay, *Anleihen und Steuern*, in the morning edition of the *Berliner Tageblatt* for June 2nd and 3rd, 1917.

year it would amount to 4 milliards, in the twenty-first to 3; translated into terms of property tax, and assuming taxable property at 200 milliards, it would amount to a tax of $2\frac{1}{2}$ per cent. in the first year, 2 per cent. in the eleventh, and $1\frac{1}{2}$ per cent. in the twenty-first. The obligation might be graded, so that the larger properties and incomes would take up a higher percentage of bonds." Compared with the permanent Imperial property tax of 1 per cent. proposed in the Economy Committee of the Reichstag, still more when compared with the project of a single confiscatory tax of 25 or 30 per cent., the above proposal, he contends, seems economically quite tolerable; it would mean that every assessed person would have to invest a percentage of his property each year ($2\frac{1}{2}$ the first year), or a corresponding part of his income, in a redeemable State obligation bearing no interest. The yearly burden on the State would then be 2 milliards towards the extinction of the War Loans, 1·5 milliards for pensions, and an amount applied to redemption of bonds which might be placed at 0·5 milliard plus the amount saved on pensions as these ceased to be payable; the total burden would thus come to 4 milliards of marks. Taking into consideration that the taxes so far determined on are calculated to yield about 1,600 millions apart from the war taxes, the residue might be covered by the monopolies which are in prospect. The whole plan presents itself as a transference of the burden of interest to a compulsory loan bearing no interest and acquiring the character of tax payment in virtue of its annual incidence. Though this plan has doubtless an advantage over the property levy in so far as it avoids the one heavy payment, it has the very great drawback that it involves a permanent and quite considerable burden on the taxpayer. It belongs thus to the number of those plans which I have already declared inadmissible on the ground of involving a permanent oppressive burden. It is to be remembered, too, that this $2\frac{1}{2}$ per cent. property tax is additional to all other taxes, direct and indirect. And though it may seem an advantage in this plan that the taxpayer retains his property in the form of a claim on the State, the forced loan being redeemable, it must not be overlooked that the market value of such a security will be very low, not only because of the uncertain date of redemption, but especially because it bears no interest. It is, and remains, a permanent heavy burden on every citizen; for a yearly payment lasting perhaps fifty years is as good as permanent. On the other hand, we have once more to emphasise the advantage of the property levy in being a payment that is made once for all. Heilbrunn's proposal labours under the dis-

advantage of imposing on the German citizen a very considerable, though yearly decreasing, burden of taxation, fixed beforehand for a long term of years, and remaining constant in spite of changes in property and income. A definite, relatively high tax is assessed, to last for decades. This is in contradiction with the principles of rational fiscal policy, which must adapt itself to continually changing economic and financial conditions. Such adaptability is much more attainable in the case of a simple levy, which admits of a greater or smaller burden being imposed according to the financial position and the economic circumstances of the individual.

Similar objections hold against the plan put forward by Konietzko, which I now take under consideration. Konietzko mentions a method of deferred payment suggested by another writer as applicable to the property levy, conceived somewhat as follows: "Having regard to the impossibility of universal immediate payment in cash, the State should allow time for payment, where needed, acting much as a lender of the amount due, this being fixed by a single assessment to be made in 1918 or 1919. The amount itself and the interest on it should be paid off at the rate of 6 per cent. in quarterly instalments spread over thirty-six years. At first 5 per cent. would represent interest and 1 per cent. amortisation, but the latter percentage would gradually rise as the interest payable diminished. The State, it is claimed, would in this manner obtain the same result as if it received the whole amount at once. For the War Loans would be covered and the burden of paying interest on them transferred to the taxpayer. The amortisation percentage, beginning at 1 and rising in accordance with the arithmetic of interest, would be applied to the extinction of the War Loans, which would be accomplished at the end of thirty-six years."[1] This plan is opposed by Konietzko, and on good grounds. His objection, which agrees with my argument against Heilbrunn's suggestion, is as follows: "An impost of this nature, fixed for thirty-six years on the basis of a single assessment, would turn topsy-turvy all the principles of taxation. Every tax on property and income is mobile. It becomes the subject of assessment at regular intervals of relatively short duration (three years or one year), and the taxable capacity at the moment is each time taken into account. In the case of an impost to be paid without variation of amount during a period of thirty-six years, no regard would be had to those displacements

1 *Vermögensbeschlagnahme durch das Reich.* In the weekly *März*, May 12th, 1917.

of property and income which would make themselves particularly felt in the time of economic storm and stress following upon the war. Instances would not be wanting in which persons assessed in a particular sum on the basis of their property as ascertained in the assessment year would, in the years following, lose the whole or a part of their property; others, again, would go free in the assessment year for want of property, but would acquire property in subsequent years." [1] For his part, Konietzko proposes an Imperial property and income tax. The first step, he explains, is to calculate the prospective yield of the suggested confiscation of property. Taking this amount as basis, an Imperial income tax and supplementary property tax should be instituted on a uniform scale, so as to obtain from the taxpayer the same contribution as they would make under the scheme of deferred payment just considered. Just as, for example, the Federal States of the Empire are at present entitled to impose for their own benefit additions to the Imperial succession duties, just as the communes have superimposed communal income taxes on the State income taxes, so in the future both the Federal States and the communes should according to their needs raise taxes additional to the Imperial scale. The taxpayer would be subjected to no burden in excess of what would be involved in the property levy and its collection by deferred payments. The money to be raised by this last-named means would be contributed in equal amount through the Imperial property and income taxes.

While Konietzko's objections to the deferred payment scheme are well-founded, his own plan labours under the disadvantage of involving so great a burden of taxation that a much greater disturbance of the national economy would result than would be occasioned by a single property levy.

The scheme of a single property levy is very decisively rejected by the National-Liberal deputy Friedberg. "Think what it means," says he,[2] "to mobilise what are for the most part immobile properties up to one-third of their value. The inevitable consequence would be forced sales of lands, houses, and factories on an enormous scale. Or, as was suggested, 'let each pay as he can'? That is, the State is to be the joint owner of estates and houses, the proprietor of shares in businesses! Thus it receives from the majority of taxpayers not a single penny of cash at the

1 *Loc. cit.*, p. 423–424.

2 *Die Abbürdung von Kriegsschulden.* In the semi-monthly *Deutsche Stimme* of January 25th, 1917, p. 39.

outset, and it burdens itself with responsibilities and administrative duties to which it is altogether unequal. An electrical monopoly, against which so great difficulties are alleged, would be a much simpler matter! And is it not an absolute absurdity to put the bridle on the horse's tail and choke off at the source the reproductive capacity of income which on financial grounds alone should be as great as is possible? The result, moreover, must be that income, as well as capital, is reduced by a third, and the same injury is inflicted as if a 30 to 40 per cent. income tax were imposed." Friedberg next raises the question whether the history of finance really affords no instance showing how a similarly situated nation has proceeded with a view to a speedy restoration of normal financial conditions after an exhausting war. And he finds such an example, one "well worthy of attention," in the financial history of the United States, viz., their manner of extinguishing their heavy war-debts after the Civil War. He points particularly to the main feature of the financial reform then undertaken, the general tax on production: "The commercial production of every article of consumption was charged with an *ad valorem* duty of from 5 to 6 per cent., payable on removal from the place of production. This was indeed a drastic interference with the national economy; but it was called for by the emergency, and financially at any rate it was fully efficacious. In the year 1866 the internal revenue amounted to 310 million dollars, equal to 1·2 milliard marks, while for interest on the debt only 133 millions were required. When in the course of the following years military and naval expenses sank to their normal level, it became possible to proceed in the most energetic fashion with the extinction of the debt. As early as in 1873, that is, within seven years, 611 million dollars, nearly a quarter of the whole, had been paid off. In 1883, at the end of seventeen years, the debt amounted to 1·5 milliards, so that almost a half had been cleared away. At this figure, which in the course of the following years was diminished to about 1 milliard, the Federal debt might already be regarded as normal, when it is remembered that the population had now increased to 50½ millions and the national wealth to 43·6 milliard dollars. The chief contribution to this brilliant result was made by the taxes introduced in the years 1861–1865. Customs and inland taxes yielded no less than 4·3 milliards of dollars in the years 1861–1874. The production tax was no doubt in the long run so great a drag on the national economy that as soon as it had done its duty it was repealed. As early as in 1866 gradual mitigations began to be conceded. In 1874 it disap-

peared."[1] Friedberg proposes that Germany should rid herself of a large part of the Imperial war debt in a similar manner. He points to the likeness between the production tax and the sales tax recently sanctioned by the Reichstag. While, however, the American tax was laid on production, the sales tax is attached to circulation. Friedberg holds this sales tax "capable of great extension." On its present scale the tax promises a yield of 250 millions, but if this scale were raised to 1 per cent. it might produce no less than 2·5 milliards. While the financial history of the United States thus provides us with no immediately practical model for the solution of the problem of paying interest and amortisation on our war debt, it yet sheds a bright light on the hitherto dark path which we have to tread.[2] Are we really to follow the path entered on by the United States, and is the production tax, or the sales tax, a suitable means for disburdening ourselves of the war debt? In order to answer this question it is necessary to look a little more closely into the specifically American financial conditions of that time; it will appear that those American conditions and relations can in no wise be compared with our German conditions. Certainly all admiration is due to the United States for the relatively short time in which they extinguished their enormous war debt, but their methods cannot be imitated in Germany. The American example cannot be recommended for imitation in the form either of a production tax or a sales tax. The whole American system of debt-extinction is only to be understood in relation to the specifically American conditions of the time.

First, the production taxes placed in the foreground by Friedberg were imposed quite at the beginning of the war and maintained through the whole of its duration. They were thus *war taxes*, and, just because they were war taxes, they were borne without murmuring, in spite of their severity, their oppressiveness, their clogging effect on the whole national economy. They arose out of the need of the time, and could thus be endured in that time of need. As indeed Friedberg himself remarks, "a system of taxation, such as was created by the legislation of the years 1861–1865, can be regarded as appropriate only to a temporary, definite exigency of State." The severity, however, with which the taxes were felt appears clearly from contemporary accounts. Having once been introduced, these taxes could be borne even for some little time after the war; but immediately after the war, as

[1] *Loc. cit.*, p. 40. [2] *Loc. cit.*, p. 42.

early as in 1866, these inland duties were considerably moderated. How heavy and almost intolerable a burden was laid upon the American people by this multitude of production taxes of every kind is well seen in an account given by a French traveller, C. Duvergier de Hauranne, in the *Revue de Deux Mondes* of August 15th, 1865.[1] "Already the citizen of the Union pays, directly or indirectly, for every hour of the day, for every act of his life, for his movable and his immovable property, for his income and for his consumption, for transport and pleasure. The stamp burdens the smallest contract, the smallest cheque or receipt, down to the amount of 20 million dollars."[2]

Secondly, these production taxes, like all indirect taxes, were only a part of a great system of taxation, which also included high direct taxes, particularly on property. Large sacrifices were demanded from property in its turn, while according to Friedberg's plan the one tax on consumption, the sales tax, is expected to provide 2·5 milliards yearly. In 1861, over and above a high land tax, an income tax was introduced, which was revised in 1864 and again in 1865. By this legislation a tax of 5 per cent. was imposed on all incomes below 5,000 dollars, a tax of 10 per cent. on incomes above that figure; in 1864 a supplementary income tax was imposed to the full amount of the original tax. In the Southern States an income tax of as much as from 5 to 15 per cent. was imposed, while at the same time there was in these States a property tax of 5 per cent. on all movable and immovable property. We thus see that the taxes on production were by no means the only war taxes; property, too, had heavy burdens to bear. Friedberg observes, it is true, that these income taxes, compared with the indirect imposts, produced only a small yield. Even when doubled by the supplementary tax they brought in, he says, only 54 millions. This figure is clearly taken from the best source we have, namely, the financial history by Hock, which has already been mentioned. Hock gives the amount for the end of December, 1865, as 54 million dollars; but he adds that on account of the great delay in assessment, demand, and collection, the tax calculated for the previous year and demanded in the current year did not for the most part reach the Treasury till the following year. Thus the yield of the tax-increases of the administrative year 1865 and of the increased income of the year 1864 made their first appearance in the completed accounts of

[1] Von Hock, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten von Amerika.* Stuttgart, 1867.

[2] Von Hock, *op. cit.*, p. 191.

the year 1866.[1] It is further to be taken into consideration that the taxes named were only taxes of the Union; in addition to them there were assessments made by the States, the counties, and the communes; there were also voluntary contributions, which the citizens could as little escape as the compulsory payments.[2] Thus in any case we see that property was mulcted very severely.

Thirdly, the most important reason for the impossibility of comparing American conditions at the close of the Civil War with the German conditions of to-day lies in the fact that despite all war stress the years of the war were for America years of unexampled economic progress. Such progress could be made during war-time only in a country endowed like the United States with inexhaustible natural resources and attracting like them an unceasing flow of immigrants. A few figures, taken from Hock's work, will illustrate this contention. According to the census of 1860, the national wealth had increased, as compared with the census of 1850, by 109·7 per cent. in the seceding States, by 126·6 per cent. in the loyal States. This great increase of wealth was maintained during the war. It was not merely that the Government purchased vast quantities of munitions, provisions, clothing, means of transport; the dominating factors were pre-eminently the continued exploitation of the western gold mines, the accession of new wealth in the form of mercury, iron, coal, petroleum, the profitable employment of flax and wool as substitutes for the cotton of the South: "Hence a vigorous, lucrative activity spread even into circles not immediately affected by State calls. In face of this activity and its fruits the burden of newly-imposed taxation disappeared. What was 6 per cent. on the price of goods when the buyer paid tax and price together without a complaint; what was 5 per cent. on an income when this income had reached an unhoped-for magnitude?"[3] It is from the days of the Civil War that we date the first profits from the production of iron, copper, coal, and petroleum, together with the great extension of the railway system: "The production of pig-iron increased between 1860 and 1864 from 884,000 to 1,138,000 tons, that of forged and rolled iron as much as from 406,000 to 852,000 tons. In 1859 Chicago sent eastwards 17 million bushels of grain; in 1863, 55 millions. The consignments of meat and lard were in 1863 ten times what they had been in 1859. From Buffalo, in 1860, there went eastwards 37 million bushels of grain and 44 mil-

[1] Von Hock, *op. cit.*, p. 303. [2] *Ibid.*, p. 191. [3] *Ibid.*, p. 470.

lion lb. of meat, tallow, and bacon; in 1863 the figures were 65 and 149 millions respectively."[1]

Thus while these American taxes were in a manner endurable as war taxes and under the specifically American conditions of the time, similar taxation would be quite intolerable in peace time and under German conditions after the war. It would mean that after practically dispensing with war taxes during the war and financing war expenditure by means of loans, Germany would be after the war paying off the loans and meeting interest on them mainly by a tax pressing with great severity on trade and commerce. The sales tax, which we are advised to take as a basis, is a measure open to serious objection on the financial-political side, though it may be justified as an emergency tax, especially at the low rate of 1 per mille fixed for it by the German law. If it were multiplied tenfold, all the objections against this tax would begin to be felt severely. Let it be observed that it is a tax which adds to the gross amount represented by the circulation of commodities. It is a tax which, especially at the rate of 1 per cent., would certainly be shifted on to the consumer, and one which would increase the price of commodities to an extraordinary degree, since it may be assumed that goods often change hands four or five times. This proposal of Friedberg's would simply mean the transference of a large part of the burden of debt to the consumer, leaving property to a great extent free. On this ground we shall hardly be able to adopt a scheme of this nature, one which certainly does not fit into the framework of a financial reform on large lines.

EXTRACTS FROM FOREIGN PERIODICALS RELATING TO AFTER-WAR PROBLEMS.

THE Prussian Minister of Finance, Hugo Simon, as reported by the *Deutsche Allgemeine Zeitung* (November 24th), announced that a Commission had been appointed to inquire into plans of nationalisation. It would discover what undertakings were ripe for nationalisation, and put suitable plans before the Government, which would investigate them and probably adopt them. No branch of industry would be nationalised before the Commission had been heard. The first requirement was the uninterrupted continuation of production. The Government regarded any diminution of production and the capacity for production as a crime, and

[1] Von Hock, *op. cit.*, p. 612.

every effort must be made to avoid placing any obstacles in their way.

The Minister went on to say that the proper offices had not yet gone into the details of nationalising industries. His own personal view was that only those concerns would be affected which were ready for the change. The form which nationalisation would take was not certain. It might be that the State would secure the ownership of an undertaking and entrust the working of it to a director, or possibly certain syndicates would be formed which would be subject to State supervision. The manufacture of arms should be nationalised, and the electrical industry. Great attention would be paid to obtaining power for the benefit of the country. The monopolistic products—coal, potash, etc.—must in all circumstances belong to the community. There must be a reform of the distribution of the land and of industries, such as cement and tile industries, which affected the building market. Certain forms of wholesale trade might be made valuable to the community. The process will be the easiest where, as in the chemical industry, a State monopoly can replace a private monopoly. Only such undertakings as guaranteed a profit could be the objects of nationalisation, for no experiments in such a direction could be permitted. An accompanying feature of this taking over by the Government will be a reduction of the large salaries payable to the head officials in favour of better wages all round to the minor officials and clerks and to the workmen. There was no idea of confiscation contained in the nationalisation proposal. The ruthless policy of violence in Russia had checked economic progress and forced countless factories to close.

The reservations made by the Prussian Minister do not reassure M. Raffalovich, who, in *L'Économiste Français* (December 21st, 1918), presents a lurid picture of Socialistic Germany—general confusion and distress, ruin of banks, including savings banks, seizure of factories, regulation of work resulting in an immense diminution of product, restriction of individual liberty. In confirmation of this pessimistic statement he cites the decline in the value of German securities. An index-number, composed of twenty-four of the most sensitive prices (*les plus vivants de la cote*), had fallen from 278 in December, 1917, to 174 in November, 1918. This, notwithstanding the fall in the value of money, consequent on the increase of paper money—from about 18,000,000 marks at the beginning of 1918 to near 28,000,000 in November.

Returning to the subject in *L'Économiste Français*, February 1st, 1919, M. Raffalovich gives the substance of a recent utter-

ance by Professor L. Brentano full of warnings against the dangers of Socialism—the evils of favouritism, the inability of bureaucrats to act as *entrepreneurs*, the interference with foreign trade. Germany, says Professor Brentano, has been too much impoverished by the war to afford the luxury of Socialistic experiments.

That sort of experiment is a ghastly failure in Russia, as described by M. Raffalovich in *L'Économiste* for January 18th, 1919. The Collectivist Government is incapable of organising the market or regulating the output. The breakdown of transportation has destroyed the communication between markets. At a distance of ten kilometres the price of the same article varies by 400 per cent. The nationalisation of industry is a failure. Seven factories sold, for just 3,000,000 roubles, goods of which the cost of production was nearly 4,000,000. An official of the Soviet estimates that the receipts of the State are from a third to a half of the cost of production. Yet as money is continually depreciating, the receipts must have been valued in a more inflated currency than the factors of production.

Der Welthandel, December 13th, 1918, presents an equally gloomy picture of Russia under the Bolsheviks. All industrial concerns throughout Russia are at a standstill; there are no manufactures and no production. All stocks of food are being consumed; everything is being hoarded or destroyed. The working classes will suffer most in the end. It is true that attempts have been made to make the working classes contented by raising their wages, a scheme which had, of course, at first the desired effect, and the new Government, by the ceaseless printing of paper money, could afford to be generous. None the less, misery soon made its appearance. Since practically nothing was being produced, the prices of food, clothing, etc., soon rose to fabulous heights, so that even the most ignorant worker has realised by this time that a wage of between 50 and 80 roubles is of little value when he can buy nothing with it; or if there is anything to be found he has to pay the most ludicrous price for it—for example, in Petrograd 1 lb. of bread cost 80 roubles. As a rule, however, there is nothing to be got, since the peasants refuse to accept the worthless paper money of the Bolshevist Government. They will only deliver their agricultural produce in return for goods—*e.g.*, clothes, boots, agricultural implements, arms, etc. All trade has become entirely an exchange of commodities. But since industrial articles of exchange are for the most part lacking, the Workmen's Councils are sending "commandeering detach-

ments" into the country to take their produce from the peasants by force. That such proceedings usually end in bloodshed is easy to understand.

An after-war problem which is receiving much attention in Italy is presented by the magnitude of the war debt. The burden is greater in Italy than in other countries, regard being had to the national income. For instance, according to a writer in the *Corriere della Sera* (December 12th), the interest (on the new war debts) payable in Italy is about half what it is for the United Kingdom; while the Italian national income is only a fourth of our national income. The writer continues to the following effect:—

It is no use looking to indemnities from our enemies to solve the problem. The most logical plan is to pool the debts of the Allied countries; to issue a single public debt stock, which shall be international and guaranteed by all the Allied nations. The payment of interest should be apportioned according to the population of each country and their taxable capacity. It is certain that this international stock would be eagerly bought by all investors in Allied countries, and even in neutral countries. The security would be so high that it could be issued, not at 6 per cent., as in France and Italy, or at 5 per cent., as in England and the U.S.A., but at 4 per cent. Holders of national war loan stocks would be quite happy to exchange their holdings for international loan stock, payable in gold at all the principal banking centres of the civilised world. This alone would be a great advantage, but the principal advantage to Italy and France would be the fact of the adoption by the Allies of this principle of justice, that each country should pay according to its means, that there should not be a frenzied struggle and exhaustion of strength, but, rather, that the peace work of to-morrow should be taken up without the slightest disturbance and under the most favourable circumstances in those countries which have suffered most through the war. Many months must elapse before Italy and France can turn from the work of war to the work of peace, and during that time Allied countries will be able to monopolise international trade. This must also be taken into consideration if justice is to be done.

Professor Luigi Einaudi, writing in the same journal (December 20th), lends his high authority to the proposal that the loans incurred for war expenditure should be unified. Britain first and then the United States, he says, have made large loans to their Allies. By consolidating all the loans, they would increase

the value of some of them and would save others, made to weaker countries, which would become well secured by distributing the burden according to the means of the various nations. The public debt, the security of which is one of the essential conditions of economic life, should be placed under the universal guarantee of all the States.

Another expedient for alleviating the burden of debt, a levy on capital, is discussed by Professor Corrado Gini in the Economic Supplement to the Roman journal, *Il Tempo* (February 3rd, 1919). His discussion of this project is one of the fullest and most impartial with which we are acquainted. We regret that on account of its length, exceeding that of our longest articles, it is not practicable to reproduce this important study in its entirety. Much space would be required in order to do justice to the fresh considerations which Professor Gini has adduced; with respect to the probability of the impost being evaded, with respect to the prejudicial effect which it might have on the relative values of securities, and at other points. Not only does he put additional weights in each of the scales, but he also balances the familiar arguments with a new care. He justly observes that the same argument may have a different weight in different countries. Thus the circumstance that with the progress of wealth—the increase of population with no decrease in average wealth—the service of a national debt becomes less onerous makes against a capital levy more in England than in France. In favour of the levy in Italy is the circumstance that much of her war-debt is foreign. For by paying off a foreign debt while prices are high the debtor country gains at the expense of her foreign creditor. But in the case of an internal loan, one class of citizens gains at the expense of another, not the country *in globo*. On other grounds, however, Professor Gini finds the project of a capital levy inapplicable to his own country. He looks rather for some expedient suggested by the solidarity of the Allies; presumably one of the kind above-mentioned, as recommended by Italian economists.

Official Reports

Report of the Gold Production Committee.

This Committee was appointed by the Treasury on September 27th, 1918, to "consider and report upon the effect of the war upon the gold production of the British Empire, with reference more particularly to the treatment of low-grade ores, and how far it may be of importance to national interests to secure the

continuance of the treatment of such ores, and generally how to stimulate the production of gold."

The Committee reported on November 29th, 1918, and the following are their main conclusions :—

1. Taking the war period as a whole the production of gold in the Empire exceeded the production during the corresponding period immediately preceding it.

2. But there was a decline in production in 1917 as compared with 1916 in South and West Africa, Australia, Canada, and India, and a still greater decline was anticipated for the year 1918.

3. The decline in production in the Transvaal in the years 1917 and 1918 was due to a combination of shortage of explosives and shortage of labour, the shortage of labour not being caused to any large extent by the war.

4. The decline in Australia in the same years was normal and due in the main to natural causes, though it was accelerated by the increase of costs and decrease in efficiency of labour caused by the war.

5. The treatment of low-grade ore in the Transvaal was not to any determinable extent reduced by the war.

6. The continuance of the working of low-grade mines which are unable to work at a profit to themselves is not a matter of great importance to national interests.

7. A bounty or subsidy for the purpose of stimulating the gold output of the Empire cannot be recommended. Gold being the standard of value, no more can properly be paid for it than its value in currency.

The first six of these conclusions are relatively unimportant, and the seventh, as will be shown later, begs the really essential point.

The first six conclusions are unimportant because, even if it could have been definitely established that the decrease in output during the war was due to an increase in costs caused by the war, the gold producers would have had no case for a bounty or subsidy unless they could have established also two further points, namely, that there was a premium on gold in terms of currency during the war and that they were prevented from securing it.

With regard to these two points, the Committee say : "It is apparently widely thought that the gold producer has been compelled to deliver the whole of his products to the Government and that he has suffered by the issue of currency notes. It seems to us that, had not the Bank of England been willing to take his products, he would have been unable to market them at all during

the war or at most only to a very limited extent, and we have ascertained that, so far from it being the case that any pressure was exercised upon him by the Government, he accepted readily an arrangement under which the Bank of England agreed to take the whole of his products. Further, the Bank took delivery of his products in South Africa at the standard price less an agreed charge for freight, insurance, and refining, and other charges ordinarily borne by him, the agreed charges of 25*s*. per cent. being much less than the charges he would otherwise have had to pay. The insurance alone would in 1917-18 have amounted to 5 guineas per cent. On deposit of the gold in South Africa he obtained an advance in London of 98¾ per cent. of the value, thus gaining at least three weeks' interest. It is calculated that he saved by the arrangement some ¾*d*. per oz., a real benefit to him, not in the least affected by the fact that the Bank were able to secure it for him, in view of the official arrangements which they were in a position to make, without themselves incurring any additional expenditure in procuring the gold. Lastly, it was open to him at any time to cancel the arrangement."

The argument here evades both the essential questions: Was there a premium on gold in terms of British currency during the war? It is possible to say no, in so far as it was illegal to sell gold at a premium. But that is not an adequate answer. The producer can justly reply that, if the gold market had been free, gold might have been at a premium. The Currency Committee which reported last year hinted very definitely that there would have been. Moreover, the gold producer can point to the fact that several countries, such as Spain, were buyers of gold during the war at parity prices in terms of their currencies, and that their currencies were at times selling at 10, 20, or even 30 per cent. premium in terms of sterling paper. Thus, even if insurance costs were taken into account, there was an actual market premium on gold in terms of British currency which the producers could have obtained indirectly by selling their gold to other countries. But the producers were prevented from obtaining this premium because they were prohibited from exporting their gold to the countries which were willing to pay the premium for it.

It is thus clear that the gold producers could have established both these additional points. There was a premium on gold in terms of British currency, and they were prevented from obtaining it. Under similar conditions, during the war, in other countries, the premium on gold was admitted by the Govern-

ment, and those with gold to sell were paid a premium for it. The answer that the Gold Production Committee should have given to the producers is that it was considered inexpedient to admit the depreciation of sterling paper in terms of gold. To secure this object it was necessary to fix a maximum internal price for gold and to prevent the export of it on private account. There was nothing unusual about this course as a war measure. Similar action was taken in the case of many other commodities at the expense of the producers. The Committee have tried to defend the policy of the Government from the standpoint of justice, and they have failed. If they had argued from the standpoint of expediency, they might have made a good case.

O. T. F.

Obituary.—Sir Inglis Palgrave.

By the death of Sir Robert Harry Inglis Palgrave, which occurred on January 25th, after a brief illness, there has passed from our midst a great authority both in practical banking and in finance and economics. It has indeed been given to few men who have devoted their energies to economic studies to make more extensive contributions to economic literature, for the life of Sir Inglis Palgrave was lengthy as expressed in actual years—he was within a few months of his ninety-second birthday—while his untiring industry and his magnificent constitution, which permitted him to continue his labours up to within a few weeks of his death, meant that little short of seventy years were spent in the study both of practical business affairs and of economic literature, while a great part of those years was actually devoted to writings upon the science to which he was devoted. While, therefore, it is impossible to epitomise in a brief biographical sketch any adequate description of so unique a career, it is only fitting to place on record in The Economic Journal some of the salient features both of the career and character of one whose name has for so long been a household word to students of finance and economics.

In some degree, doubtless, Sir Inglis Palgrave's rare mental gifts were those of inheritance, for both his parents were gifted people, while his three brothers achieved distinction, one of them—Sir Reginald Palgrave—being for many years Clerk of the House of Commons. Sir Inglis was born in 1827 and was the third son

of the late Sir Francis Palgrave, K.H. Deputy Keeper of H.M. Public Records and also historian of the "Rise and Progress of the English Commonwealth," a new edition of which, edited by Sir Inglis in his latest years, will soon be available. His mother, Lady Palgrave, was the second daughter of the late Dawson Turner, F.R.S., F.S.A., etc., of Great Yarmouth, who in his day achieved distinction both as a banker and as a man of science, and although Palgrave's parents do not appear to have been wealthy, they mixed in the best literary society of their day, Lord Macaulay, Mr. Hallam, and many others being close personal friends. Sir Inglis himself was educated at the Charterhouse and commenced his business career at the early age of sixteen in the banking house of Messrs. Gurney and Co., of Great Yarmouth. Thus it will be seen that in the world of economists Palgrave falls into the ranks of those who, like Bagehot, have given consideration to what may be termed the science of business, rather than into those of distinguished economists whose training has been mainly that of the University.

At a very early age, however, Palgrave's attention seems to have gravitated towards political economy, for Adam Smith's "Wealth of Nations," given to him when quite a boy by his father, remained amongst his most treasured possessions throughout his life. Indeed, there is little doubt that the early reading of this book had much to do with the direction of his mental energies in a certain path, just as later his actual writing on economic subjects was stimulated by the fact that in 1870 he was awarded, by the Statistical Society of London, the prize for an essay sent in in open competition, the subject being the "Local Taxation of Great Britain and Ireland." The studious and serious bent of Palgrave's mind at a very early age is shown, not only by the kind of books which formed his favourite companions, but by the general trend of his ambitions. It is not often, for example, that we find a boy of twelve including among his day-dreams that of becoming one day a Fellow of the Royal Society. But so it was with Palgrave, and the dream was realised in 1882, when he was elected a Fellow of that Society, a distinction seldom conferred outside the circle of actual authorities on physical science. It is fairly evident, too, that the winning of the prize awarded by the Society to his essay, to which I have just referred, was an event which, small perhaps in itself, gave to the recipient not only encouragement, but confidence in his powers of turning his business experience and his economic studies into actual authorship on those matters, for from 1870 onwards his literary

activities may be said to have equalled those displayed in his career as a banker. Two years later he published his "Notes on Banking in Great Britain and Ireland, Sweden, Denmark, and Hamburg," while a year later still followed his "Analysis of the Transactions of the Bank of England for the years 1844 to 1872." About this period also he contributed a great deal to the *Economist*, and between the years 1877 and 1883 he actually edited that journal, in addition to carrying on his duties at the bank at Yarmouth with which he was connected. It is not surprising, however, that the strain was too great even for his vigorous constitution, and he ultimately resigned the editorship of the *Economist*, without, however, in any way slackening his energies in the direction of economic research. In 1903 he contributed a useful work entitled "Bank Rate and the Money Market in England, France, Germany, Holland, and Belgium," while some years earlier, namely, in 1894, he commenced what was destined to be his greatest contribution to economic literature in the shape of a "Dictionary of Political Economy." At the outset Palgrave had hoped that this work would occupy some four years, but in reality it occupied about fourteen, the final appendix being published as recently as 1908. Even if Sir Inglis Palgrave had written no other work, he would have been long remembered by students of that science, for, consisting as it does of a concise definition and description by leading experts of practically every subject coming under the head of economic science, arranged in dictionary form, the work has been valuable to the economic student, while it takes high rank amongst economic books of reference. Its publication may indeed be said to have marked the climax of Palgrave's career as an economic writer, for by the time of the publication of the final volume he was an octogenarian. Unquestionably the work set the seal on a long life of service to the cause of economics, and shortly after its publication in the year 1909 he received the honour of knighthood in this country, though it is interesting to note that as far back as 1873 he was made a Knight of the Order of Wasa of Sweden in connection with the publication of his "Notes on Banking," to which reference has been already made.

In addition to other literary work, mention must be made of Sir Inglis Palgrave's long association with the *Bankers' Magazine*, of which many years ago he was editor for a brief period, while he contributed to that journal down to the last week of his life. His editorship of the *Banking Almanack*, which was of

long standing, was also maintained to the last, and, indeed, while bodily strength failed in his closing years, his mental vigour was great up to the time of his last illness. And just as his activities as a student and writer were continued throughout his life, so his actual connection with banking was also maintained. When a comparatively young man he had steadily advanced in position in the bank of Gurneys, of which he subsequently became a partner, marrying in 1859 a daughter of Mr. George Brightwen, who was related to the Gurney family.

Reference has already been made to the honour bestowed upon Sir Inglis by the Royal Society by election to its Fellowship in 1882, and mention may be made of other occasions on which Palgrave's abilities brought him into prominence. In 1875 he was one of the three representatives of the English issuing country bankers, chosen to give evidence on their behalf before a Select Committee of the House of Commons on Banks of Issue. And again, in 1885, he had the distinction of being appointed one of Her Majesty's Commission on Depression of Trade and Industry. In addition to these more public services, his local activities in the district of Great Yarmouth, where he resided for the greater part of his life, were such as to make his influence, not merely in all philanthropic, but in social and even in business efforts, quite remarkable. It was, indeed, in recognition of such services that in 1910 he received the honorary freedom of Great Yarmouth.

Any attempt to sum up the precise value of Palgrave's contributions to economic literature must necessarily take count of these many-sided activities I have briefly enumerated, because they go far to a correct appreciation of the character of those contributions. If shortcomings are to be found in the sense of his having dealt less than other writers with the postulates of political economy, it is probably because, like Bagehot, he approached the whole subject from the practical, rather than from the university or scientific, standpoint. For an examination of the fundamentals of political economy, it is to other writers that the student will still have to turn rather than to Palgrave; but for what may be described as the human aspect of economics and its vital relation to business affairs, no better guide than the writings of the deceased economist can be found. Indeed, many of his books might more fairly be described as a classification of business statistics than works of political economy. And even his great "Dictionary of Political Economy" may be regarded as the conception of a practical banker devoted to the science of political economy, but anxious

to make the subject of live use and value, not merely to the student, but to the banker, barrister, journalist, and the man of affairs. In brief, Palgrave, like Bagehot, was one of those invaluable links between the world of active business and of the science which, unperceived by the masses, nevertheless exercises its inexorable laws over all financial and business affairs. Moreover, if Palgrave wrote few books on the science of political economy itself, he was sufficiently imbued with its teaching to bring it to bear upon every practical subject upon which he wrote or spoke.

Sir Inglis Palgrave has so recently left us, and his high and genial character was so intimately known and appreciated by a wide circle, that it seems unnecessary, almost to the verge of impertinence, to emphasise such points as the kindliness and humble-mindedness of his nature and his intense sympathy with every development affecting his day and generation. Indeed, it is less than two years ago since the affection and esteem in which he was held was eloquently expressed in a letter sent to him on his ninetieth birthday, signed by leading bankers and economists, congratulating him upon his years of fruitful labour and assuring him of the affection in which he was held. Of his chivalrous courtesy to younger and less-gifted contributors, the writer of this article could say much; but it is impossible not to mention one aspect of his character which explains so much of the motive power behind his writings. I refer to his high *conception* of work and his untiring industry. Neither pecuniary reward nor the applause of the community moved him to effort, but the idea of work well done—of work likely to affect those of his own generation and those who come after him, was a source of inspiration which never failed down to the days when mental vigour had outlasted physical strength.

A brief reference to Sir Inglis Palgrave's general methods of work and to some personal characteristics related to his labours may fitly close this brief and very imperfect appreciation of our friend.

"Two of his most striking characteristics," writes his valued secretary,

"in connection with his work were his unremitting industry and his scrupulous honesty and exactness with regard to all statements made by himself or for which he was in any way responsible, and also with regard to understanding every detail of what he read. His constant employment continued right up to the last days of his life. He still worked the greater part of the day, and when he put his work aside it was to read books that required a considerable amount of mental effort. His greatest recrea-

tion was reading poetry. Few Sundays passed without his reading some part of Dante. Dante's "Purgatorio" was one of the last books he read, on the Tuesday before he died.

"His room where he worked was very characteristic. The writing-table in the middle of the room, where he could get the best light, was covered with papers, pamphlets, etc. The walls on nearly two sides lined with books on economics, finance, etc., a small bookcase containing miscellaneous books of which various editions of Dante formed a large part—a long, low bookcase contained many volumes of poetry and essays. Another bookcase called the "Island" was full of books of prints from the Italian masters—or of architecture—and volumes of bound letters written by his parents during journeys on the Continent, some of them illustrated by beautiful water-colour sketches by his mother, Lady Palgrave. Over the mantlepiece there are some 25 excellent specimens of etchings by Rembrandt and Durer, bought with the proceeds of articles written for the *Quarterly Review*, and other periodicals, or given him by his brothers. Opposite to him hung Richmond's portrait of his father, some very early examples of wood engraving, and some delicately tinted wedgwood medallions; on the low bookcase were some attractive pieces of china. Among these varied surroundings a life of work was carried on such as few people can equal. Some who knew him and the room well said: 'There was such an atmosphere of work in the room.'"

And, indeed, it might truly be said that the sanctity of work was never more vividly recognised than it was by Sir Inglis Palgrave.

ARTHUR W. KIDDY

CURRENT TOPICS

"How much can Germany pay?" This question has been discussed by Mr. Faithfull Begg in a temperate address to the London Chamber of Commerce (January 14th). His answer was far removed from either of the extremes which have been suggested; on the one hand £38,000,000,000, and on the other hand the indemnity exacted by Germany from France, £200,000,000. Mr. Begg classified the claims of the Allies under three heads; first, restitution pure and simple; second, such an amount as could be secured by a definite hypothecation of German revenues; and, third, a remainder described as "offset." The first class comprised cash and other property requisitioned by Germany during her occupation of invaded countries, ships corresponding to those which had been sunk, and other species of "restitution in kind." Secondly, he proposed that an International Commission should be charged with receipt of royalties and other sums for the service of bonds bearing interest at 3½ per cent., with a sinking fund of ½ per cent. The bonds were to be extinguished in sixty

years. Such an issue, he thought, would be useful as an international regulator of exchange, as the bonds would pass freely from one country to another. Surveying the resources of Germany, her production of coal, iron, potash, together with other relevant circumstances—her pre-war imports and exports, her Budget of 1914—he estimated that the revenue available for the service of indemnity bonds would amount to some £128,000,000 in pre-war currency, and therefore at double that sum in present price. He thus estimated £6,500,000,000 as the amount of indemnity bonds which could be called. In the third category a principal item consisted of Germany's foreign investments, estimated at £1,250,000,000. He deprecated the attempt to ruin Germany; in order to pay off her debt she must have facilities for manufacturing and oversea trade. Much less moderate demands were made by some of the speakers at the meeting.

AMONG recent pronouncements on the occasion of company meetings, particularly noticeable is Sir Edward Holden's address to the London City and Midland Bank (January 29th). He first describes the financial position of leading belligerents instructively. He estimates the debt on which we shall have to pay interest and sinking fund (in the absence of relief) at £6,400,000,000 approximately. The corresponding figure for Germany is £8,300,000,000. Sir Edward dwells on the increase of Reichsbank notes (now above a thousand million sterling) *pari passu* with the increase of Treasury Bills. The issue of notes against Treasury Bills is, he observes, wrong in principle, becau it is not certain that the Bills will be paid off when they mature. After a lucid description of the Federal Reserve system in the United States, Sir Edward refers to the recent report of the Currency Committee, and traverses their defence of the 1844 Bank Act. He apprehends, as a consequence of their teaching, an undue restriction of that accommodation from banks which industry now urgently requires. He seems to think that the extension of currency during the war was defensible. "Whatever the effect of prices may have been, an increased issue of currency has been absolutely necessary under the conditions which have prevailed during the war." Sir Edward renews his contention that the position of the Bank would be more secure, the ratio of its gold to its liabilities larger, if the two departments were separated. The frequent changes in the bank rate consequent on the Act of 1844—much more frequent than the corresponding

changes in the French and German systems—have proved detrimental to our industrial community.

The Italian branch (*famiglia*) of the Universal League of the Society of Free Nations has received a report drawn up by two distinguished Italian economists, Professors Einaudi and Prato, together with the influential Radical statesman, E. Giretti. The reporters deplore the recrudescence of Protection, in defiance of the principles proclaimed by Mr. Wilson in his great speeches (particularly those of January 8th and September 27th, 1918). While the most virile sections of the Allied nations have been fighting for noble ends, crafty politicians have been contriving diabolical systems of customs preferences and multiple tariffs, "nominally directed against imaginary German dumping after the war, but in reality designed to obstruct free trade between Allied countries." The reporters hope for the complete abolition of all protectionist devices, of tariff wars, and fiscal retaliation in the cause of particular countries. Economic boycott should be permitted only when used by the League of Nations against recalcitrant States.

The University of Edinburgh have instituted a Degree in Commerce. The course of study for the Degree is to extend over not less than three academic years. The curriculum of classes qualifying for the Degree is to comprise seven full courses (or certain equivalents). A full course shall in general consist of not less than seventy-five meetings of the whole class on separate days, with possibly additional meetings for tutorial or other supplementary instruction. The Senatus, with the approval of the University Court, shall have power to exempt from attendance on or examination in not more than three full courses of the Curriculum or the equivalent thereof, a candidate who produces satisfactory evidence that he has undergone sufficient training or examination outside the University in the subject or subjects of such courses.

RECENT PERIODICALS AND NEW BOOKS

The Quarterly Review.

JANUARY, 1919. *The Currency Note in Relation to Banking.* W. A. SHAW. Up to the end of 1915, currency notes formed an unimportant emergency incident. By the end of 1916 they had only just replaced the pre-war currency. The level of prices at that date, therefore, was not due to inflation. The shortage of commodities was one cause; "if prices rise and the volume of the currency media remains stationary, there will be a currency pinch or hunger." Again, the increased industrial activities caused a demand for currency. Also, "with a restricted currency the immense credit operations of the present war could not have been safely carried through." The writer recommends accepting an inconvertible currency frankly. Dissenting from the Committee on Currency and Exchange, he approves of Mr. Larkworthy's scheme (mentioned in the ECONOMIC JOURNAL, 1917, p. 300). *German Banks and Peaceful Penetration.* A. D. McLAREN. German methods of "penetration" are exhibited in detail, stress being laid on the combination between banks, their "long" (*langfristiger*) credit with deposits not payable on demand, and their collection of information about foreign customers. The writer has read the "record-cards," some 100,000, and correspondence of the London branch of the Dresden bank, which documents substantiate his apprehension of German competition. The political action of the German banks is also sinister.

The Edinburgh Review.

JANUARY, 1919. *Profit Sharing in Agriculture.* (ANONYMOUS.) *Transport Reconstruction.* W. M. ACWORTH. There is no justification for expenditure on canals, except for minor improvements, nor for the construction of light railways. The development of motor transport deserves attention. Incidentally, the proposed tunnel between England and France is blessed; the tunnel to Ireland is banned. *Coal Conservation.* PROF. J. W. COBB. *Ships and Empire.* DAVID HANNAY.

The Nineteenth Century.

FEBRUARY, 1919. *Bolshevism according to Lenin and Trotzky.* DR. ARTHUR SHADWELL. The tyranny of the Bolshevist dictators attested by their own utterances extends to industry. "Every great machine industry . . . demands the unqualified and strictest unity in the will which guides the common labours of hundreds, thousands, and ten thousands of men. Technically, economically, and historically this necessity is obvious, and would be recognised as a primary condition by all who had thought over Socialism. But how can the strictest unity of will

be secured? By the subordination of the will of thousands to the will of a single person . . . the *unquestioning submission* to a single will is unconditionally necessary for the success of industrial processes."—(Lenin.) *Problems of Currency and Exchange.* MORETON FREWEN.

Contemporary Review.

FEBRUARY, 1919. *The Demobilisation of Juvenile Workers.* MISS B. L. HUTCHINS. The old evils of *cul de sac* employments have now more than ever to be guarded against.

Better Business (Dublin).

NOVEMBER, 1918. *Co-operation in the New World.* LIONEL SMITH-GORDON. Apples and pears are the subject of this seventh article on Transatlantic co-operation. *Odious Comparisons.* LENNOX ROBINSON. Comparisons are drawn between the use of public libraries in Ireland and in the United States; *e.g.*, South Dakota, with a population rather smaller than that of Connaught, has forty-seven libraries; Connaught none. *The Future Policy of the I.A.O.S.* D. C. *Complete Co-operation.* E. S. WOOSTER. An account of a co-operative colony in South California started in 1914 by the Vice-President. *Co-operation in the Liberated Regions of France.* H. SAGNIER.

Quarterly Journal of Economics (Cambridge, Mass.).

NOVEMBER, 1918. *The Wheat and Flour Trade under Food Administration Control*, 1917–18. WILFRID ELDRED. The problems of the Food Administration were: (1) To attain stability of price; (2) to preserve supplies for home consumption and export; (3) to distribute the available wheat among the mills equably. The first and third problems were successfully solved. *The Price-fixing of Copper.* L. K. MORSE. The necessity for price-fixing and its good results are shown. *An Estimate of the Standard of Living in China.* C. G. DITTMER. Budgets of 195 families in the neighbourhood of Pekin show a median income between 90 and 109 Chinese dollars (worth, say, half American dollars), and verify Engel's law by the immense proportion of income spent on food. *Railway Service and Regulation.* C. O. RUGGLES. The defects of the service are not mainly due to the war, and will not be removed by Government ownership without drastic regulation.

Prof. T. N. Carver contributes a crisp note on the "behaviourists" who, maintaining that the older economists have exaggerated the pecuniary motives, themselves run into the opposite extreme.

The American Economic Review (Cambridge, Mass.).

DECEMBER, 1918. *Dependency Index of New York City*, 1914–17. I. M. RUBINOW. A method of measuring destitution. *Diminishing Returns in Manufactures.* CHARLES MIXTER. Why a shoe manufacturer successful as a small manufacturer failed with a

larger factory. *Closed Shop versus Open Shop.* H. E. HOAGLAND. A comparison between union and non-union shops. *Relations between Labour and Capital and Reconstruction.* O. SPRAGUE. *The Theory of Railroad Reorganisation.* A. S. DEWING.

Political Science Quarterly (New York).

DECEMBER, 1918. *The Public Finance of Santo Domingo.* T. R. FAIRCHILD. *Limitations of the Ricardian Theory of Rent.* II. W. R. CAMP.

The Journal of Political Economy (Chicago).

DECEMBER, 1918. *The Problem of Demobilisation.* (ANONYMOUS.) *Production after the War.* H. GORDON HAYES. *The Taxable Income of the United States.* D. FRIDAY. The national income is put at $21,000,000,000; the amount paying taxes at $17,700,000,000.

JANUARY, 1919. *Cartels during the War.* WILLIAM NOTZ. *Preliminary Survey of Industrial Reconstruction.* DUDLEY COTES. *University Schools of Business and a New Business Ethics.* H. A. WOOSTER.

American Economic Association. Report of the Committee on War Finance.

This is a strong committee, including in the list of its members, among other distinguished names, those of Bullock, Hollander, Kemmerer, Noyes, Plehn, Seligman. The committee consider only public revenue, not expenditure. They make valuable suggestions as to the income and excess profits taxes, as to indirect taxes and other branches of finance. They are decidedly against a levy on capital as a means of paying war debt. It would "descend with crushing burden and cruel inequality," would dislocate business, discourage saving, encourage public extravagance. Loans to meet the huge war expenditures were unavoidable, but the attendant expansion of currency and bank credit should be minimised.

American Academy for Political Science (Philadelphia).

JANUARY, 1919. This number is devoted to Reconstruction.

The Arbitrator (Boston).

NOVEMBER, 1918. This number records an animated debate between George Haven Putnam, that venerable champion of Free Trade, and Mr. Thomas O. Marvin, editor of the *Protectionist*. Mr. Putnam leads off; Mr. Marvin replies; and there is a rejoinder and a rebutter.

The *Arbitrator* is a monthly, "dedicated to the impartial discussion of practical questions." Debates on prohibition, birth control, single tax, and other burning questions have appeared in recent numbers.

Journal des Économistes (Paris).

DECEMBER, 1918. *Le programme économique de M. Lloyd George* YVES GUYOT. A protest against State intervention. *La Réquisition de la flotte commerciale.* G. SCHELLE. *L'Algérie pendant la guerre.* E. FALCK. *Le problème de la population après la guerre.* N. MONDET. A *résumé* of M. Savorgnan's study in *Scientia* (i), where it is argued on the basis of the loss by war of males between twenty and forty-four years of age, and the previous rate of increase that it will take the United Kingdom ten years to repair its losses of population, Germany twelve years, and France *sixty-six.*

JANUARY, 1919. *Le règlement des comptes avec l'Allemagne.* YVES GUYOT. *Le marché financier en 1918.* A. RAFFALOVICH. *L'influence de la guerre sur le pouvoir de consommation et sur la formation des capitaux.* G. SCHELLE. *Les bases de la ligue des Nations.* H. LAMBERT. *Le progrès économique de la Grèce depuis quarante ans.* A. ANDRÉADES.

Revue d'Économie Politique (Paris).

MAY-JUNE, 1918. *La guerre et les finances de la France.* DECAMP. A lucid statement of war finance, especially of the part played by the Bank of France. *La syndicalisation obligatoire en Allemagne.* H. HAUSER. *Le régionalisme économique.* B. RAYNAUD. (Continued and ended.)

JULY-AUGUST, 1918. *L'agriculture français et les prisonniers de guerre.* X. *La circulation fiduciaire, la thésaurisation et la hausse des prix.* M. BARRÉ. *Les moyens de la politique de conquête des marchés étrangers au XVII*[e] *et au XVIII*[e] *siècles.* A. DESCHAMPS. *Les congrès ouvriers français en Juillet,* 1918. R. PICARD.

De Economist (La Hague).

DECEMBER, 1918. *Het vraagstuk van de delging der oorlogs- of crisisschulden.* G. M. BOISSEVAIN. Referring to Prof. Pigou's article in the ECONOMIC JOURNAL (June, 1918) on a special levy to discharge war debt, M. Boissevain condemns that project. *Gelddepreciatie en groenteprijzen.* C A. VERRIJN STUART. The rise in the price of sundry vegetables since 1814 confirms the view that causes on the side of money have contributed to depreciation.

Appreciative notices of articles in the ECONOMIC JOURNAL, 1918, are contributed by E. C. Van Dorp.

Giornale degli economisti (Rome).

OCTOBER, 1918. *Dei problemi del dopo guerra relativi all' emigrazione.* L. BODIO. Italian workmen are to be encouraged to stay at home, but not to be compelled. "If the war was fought to free Europe from Prussian militarism, let us not be smothered under the coils of bureaucracy" [*funzionarismo*]. *Scelta dei mutui fondiari a vari saggi d'interesse.* G. RODOLICO.

NOVEMBER, 1918. *Una possibile soluzione del problema doganale.* G. ANONSANI. A compromise scheme for dealing with imports. *Discussioni sulla pressione tributaria.* B. GRIZIOTTI.

DECEMBER, 1918. *Industria delle costruzioni navali e dell' armamento.* E. CORBINO.

La Riforma Sociale (Turin).

SEPTEMBER–OCTOBER, 1918. *Le fonti storiche della legislazione economica di guerra. Il controllo dei cambi in Piemonte nel* 1798. G. PRATO. *La nuova economia.* L. EINAUDI, B. ALESSANDRINI. A *résumé* of Dr. Walter Rathenau's *Die Neue Wirtschaft.*

NOVEMBER–DECEMBER, 1918. *Relazioni fra commercio internazionale, cambi esterni e circolazione monetaria in Italia nel quarantennio* 1871–1913. Correlations are traced between the state of the exchanges, the excess of exports over imports, and the expansion of the currency. *Moneta e prezzi nelle piu recenti loro manifestazioni.* G. ALESSIO. *Il collocamento nell' immediato dopoguerra.* A. CABIATI.

L'Ufficio Municipale del lavoro di Roma. Bolletino Mensile (Rome).

DECEMBER, 1918. The first number of this monthly promises to exhibit facts objectively and to allow free discussion of ideas. Among other articles bearing on after-war problems is a study on changes in the cost of living, with suggestion as to corresponding increase of wages. The index number for Italian prices based on seven articles is tested by the omission of one —flour—(*farina*), and the addition of two (potatoes and eggs). The official index number based on seven articles shows a rise of almost 130 per cent. in June, 1918, compared with the first half of 1914. The varied index number shows a rise of almost 140 per cent. for the same period.

NEW BOOKS

English.

BENSON (ROBERT). State Credit and Banking during the War and After. London: Macmillan. 1918. Pp. 53.

BREEDENBEEK (A. F.). Fire Insurance a State Monopoly in the Netherlands. Amsterdam: International Publishing Co. 1918. Pp. 95.

COGHLAN (T. A.). Labour and Industry in Australia from the First Settlement in 1788 to the Establishment of the Commonwealth in 1901. In four volumes. Oxford University Press. 1918. £3 13*s*. 6*d*. net.

[To be reviewed.]

COLE (G. D. H.). An introduction to Trade Unionism. (Trade Union Series, No. 4.) London: Fabian Research Department and Allen and Unwin. Pp. 128.

[To be reviewed.]

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THE ECONOMIC JOURNAL

JUNE, 1919.

FRENCH WAR BUDGETS FOR 1919–1920[1]

IT has sometimes been said in England, not without a certain bitterness, that the French taxpayer has come off very lightly during the war. I take from an English newspaper the following passage, which gives expression to the existing dissatisfaction on the subject, and which is worth quoting. It occurs in a letter signed "Income Tax-payer":—

"The report of the Finance Committee of the Chamber of Deputies on the new Income Tax Bill shows that taxes have increased in Britain during the war from 95 francs per head to 265 francs, whereas the increase in France is only from 90 to 103 francs.

"Are we financing France and paying income tax varying from 2*s*. 3*d*. on earned incomes to 5*s*. in the £ on unearned in order that the inhabitants of a rich country like France may continue to enjoy the privilege of a low income tax at our expense, and in order to enable the Finance Committee of the French Chamber to brag about this clever performance?"

In some respects this protest appears to be well founded. The new taxes introduced in France from the beginning of the war to the present time do not amount to more than 3,600 million francs. Moreover, these taxes were only introduced in the course of the last two years of the war. It was only in 1916 that the first taxes were voted, in the form of a super-tax on alcohol and a tax on war profits. And it was not until the beginning of 1917 that the new taxation made its first public appearance in the modest guise of an increase in postal rates from 10 c. to 15 c. and of a certain number of new stamp duties on receipts. Until that date the French Government had performed the feat

[1] At the close of May, after this article had gone to press, M. Klotz brought forward some further proposals.

of carrying on the most expensive of all wars without requiring the French taxpayer to contribute a single penny.

Not only have French taxpayers been liable to new taxation for a comparatively short time only, but, further, they have in many cases been relieved of the necessity of paying the old taxes. This applies at any rate to all such of them as were mobilised, since tax-collectors had in fact been instructed not to prosecute. At the same time, in virtue of the "Moratorium" proclaimed at the outbreak of war, mobilised rent-payers or their families were dispensed from paying house rent, farmers were excused from paying agricultural rent, and debtors from paying their debts. Again, in France, as for that matter in England and in Germany, the families of mobilised men received allowances which, at the outset, were fixed at 1 fr. 25 c. for a wife and 0.50 for each child; these allowances were gradually increased to 1 fr. 75 for a wife, 1 fr. 25 for each child and 1 fr. 50 for the third child and upwards, so that for a wife and three children they amounted to 5 fr. 75 a day, or 40 fr. 25 a week—representing a total charge on the State of more than 2,500 million francs a year. If all this is taken into consideration, it will easily be understood that for many a working or peasant family, for all of these at any rate who have not had to mourn the death of a son, the Great War will have been a veritable Golden Age the memory of which will be handed down from generation to generation as of a fabulous time when neither taxes, nor rents, nor debts were paid, and the end of which was much to be regretted, however much one may scruple to pray for its return.

This fiscal policy of the French Government was inspired—as M. Métin, the Under Secretary of State for Financial Affairs, somewhat candidly expressed it—by the desire "to maintain the magnificent enthusiasm of the people by enabling their families to endure, with a constancy that has never failed, the trials imposed upon them for the salvation of their country." Clearly there is nothing very heroic about this method of maintaining the *morale* of the country, but it was successful; and it may indeed be doubted whether, without such pecuniary support, the population would have endured so long a period of war with the additional burden of high prices. But this policy continually provoked criticism that was sometimes severe not only abroad, but also in France.

The difference between the treatment of the taxpayer in France and in other countries will perhaps seem less flagrant and less unjustifiable if the following circumstances are considered :—

1. From the moment when war broke out France believed in a short war, lasting six months at the most. This mistaken belief was encouraged by the expectations of the General Staff and by those of the most distinguished economists, of whom one of the most prominent was the late Paul Leroy-Beaulieu. Instead of being enlightened by the attitude of England, whose preparations were made on the assumption that the war would last at least three years, the French public was carefully prevented from entertaining such an appalling prospect. I remember that when, at the beginning of the war, Lord Kitchener made a speech in which he contemplated a duration of three years, the sentence in question was cut out by the Censor and not published in the French newspapers. This confident belief in a short war made it obviously unnecessary to impose fresh taxation.

2. In France almost the whole adult male population was mobilised in the very first days of the war—3,784,000 men as early as August 15th, and more than five million men by February 1st, 1915. In England, on the other hand, mobilisation only took place gradually. The disturbance occasioned in business and in family life was consequently more sudden and more general in France, and made it difficult to introduce new taxes. Even the old taxes could not be collected under such conditions.

3. It was not easy to devise a new form of taxation. A tax on food was out of the question, since its effect would have been to aggravate the already alarming rise in prices. As for direct taxes, France had no such marvellous fiscal instrument available as the English Income Tax, which can simply be raised as far as is necessary. It is true that at the moment when war broke out the tax on income had just been introduced in France. But this tax was not yet in working order, and had in any event only been introduced as a financial experiment which was not expected to yield more than 60 million francs. The first effect of the war was to put this tax altogether out of gear. Later on, in 1917 and 1918, it was decided to increase to 10 per cent. and 12½ per cent. the original maximum rate of only 2 per cent. But even to-day the machinery of collection is very imperfect. It must be remembered that a great number of the officials employed in the Treasury had been mobilised, and it was consequently a matter of extreme difficulty to complete and to control the contribution schedules.[1]

4. Last, and not least, it should not be forgotten that France,

[1] As an example of the disorder in the Treasury Administration I may say that at the end of March, 1919, the taxpayers had not yet received the demand forms for income tax relating to incomes of 1917.

unlike England, has been invaded since the beginning of the war. And although the extent of the occupied territory (at least since the withdrawal that followed the victory of the Marne) is only 4 per cent. of the whole area of France, yet it included the most populous and the most industrial districts, and represented about 15 per cent. of the revenue of the country.

These facts may seem sufficient to excuse the French Government for having raised by taxation only a small part of the cost of the war—about 22 milliards of francs out of total expenses amounting to 181 milliards (to April 1st, 1919), or only 12 per cent., whereas in England taxation provided about 26 per cent., and in the United States more than 50 per cent. ; in Germany the proportion is not believed to have been higher than in France.

Nor can we endorse a criticism which has often been made against the French Government, namely, that it had recourse too much to short-term loans or to loans in the form of note issues, instead of relying upon loans in the form of consolidated *rentes*. In any event it is not England, who herself did not resort to perpetual annuities on a great scale, but Germany, who is in a position to make such a criticism. It is true that in Germany a great loan was issued regularly every six months, and that by this means the enormous sum of more than 100 milliards of marks was obtained from the country. France, on the other hand, issued a loan only once a year, or four loans in all, which together produced 54 milliards of francs, or only 37 per cent. of her expenses.[1] It is undeniable that the regularity with which

[1] From August 1st, 1914, to April 1st, 1919, the expenses of the war in France amounted to 181 milliards (£7,240 million), covered as follows :—

22 milliards by taxation	16 per cent.
54 milliards by loan in the form of "rentes perpetuelles"	33 ,,
32 milliards by short-term bonds	20 ,,
26 milliards by loans from the Bank of France (in the form of note issue)	14 ,,
27 milliards by foreign loans (chiefly from England and U.S.A.).	17 ,,
161	100

It follows that 20 milliards of francs remain to be provided, pending repayments by Germany and the issue of new loans. But in order to arrive at the expenses arising out of the war it is necessary to deduct from this grand total the ordinary expenses which would have figured in the Budget in any event, even if there had been no war, *i.e.*, at the rate of 5 milliards a year, about 23 milliards in all. The sum to be deducted is thus roughly equal to the proceeds of taxation, and the remaining total properly attributable to the war is 158 milliards. The fact that the ordinary expenses are almost equal to the sums obtained by taxation proves that taxation contributed practically nothing towards war expenses. The new taxes of 1917 and 1918 did no more than cover

the German nation paid twice a year some 12 to 15 milliards of marks in capital is most imposing. In spite of the way in which the ingenious devices invented to facilitate these payments were abused, it must be admitted that the German people gave proof of a very sturdy confidence in their Government. The French public preferred the system of short-term bonds repayable at will after periods of one, three, or six months, etc., and was willing, more often than not, to renew these bonds indefinitely, since all that mattered to the investor was the knowledge that they could at will be withdrawn in the form of cash. The greater part of the enormous war profits, and even the small savings realised by the middle classes or by the peasants, were invested in this form. The total amount subscribed in bonds was seldom less than a milliard a month, and since the successes of last autumn it has increased to more than $2\frac{1}{2}$ milliards a month. Even since the Armistice these subscriptions have amounted to $1\frac{1}{2}$ milliards of francs a month.

As for the loans in the form of note issues by the Bank of France, without shutting our eyes to the dangers of this too convenient method of coining money we do not think that in these unusual circumstances the Government was to blame. The total up to date (April 1st, 1919) is 37 milliards of francs, and will eventually amount to 40 milliards. We may admit that this expansion of the note issue was one of the causes of the rise in prices—since in England, where the issue of bank notes and even of currency notes was, after all, very restricted, the rise in prices has not been as great as in France. But the rise in prices was itself not an unmixed evil; no doubt it increased the expenses of the war, but, on the other hand, it was a powerful stimulus to agricultural and industrial production. This question is, however, too wide to be treated incidentally.

We should be more inclined to criticise the French Government for having been too timid in the issue of its four great loans. They were all issued very much below par (at about 88 fr. in the case of the first two 5 per cent. loans, 68 for the third loan at 4 per cent., and 72 for the fourth at 4 per cent.). England issued a 5 per cent. loan at 95, Germany at 98, and even Italy at 95, 97, and 90, at least in the case of her first loans. The result is that France incurred a debt of 69,375 millions of francs in return for actual receipts amounting to only 53,280 millions;

the non-payment of taxes during the years 1914–1916. And on the other hand there remain to be added the expenses of demobilisation and of reconstruction in invaded territories—expenses which do not fall far short of those incurred in war time.

which means that when the debt is repaid or converted she will have to refund 16,095 millions more than she received! In the meantime she is paying an interest of not much less than 6 per cent. Moreover, she has pledged herself to her creditors not to inflict any taxation on the coupons of the *rente* (which England did not do), and not to convert for fifteen or, in the case of the last loan, for as much as twenty-five years. In this way French capitalists have been afforded advantages which were quite disproportionate and, I may add, quite unnecessary. The loan would have been subscribed just as easily if it had been issued at the same rate as in England or in Germany. Of the millions of Frenchmen who subscribed there were very few who worried about the rate of interest or who would have refrained if the rate of interest had been 5 per cent. instead of 5·85. The Government did not have sufficient faith in the patriotism of French capitalists, great and small, and the timidity of the Government may be translated into terms of a heavy impost on the generations that are to come.

* * * * * *

So much for the Budgets of past years. But now that the war is over it is evident that the Government will not be able to continue the same policy and to pay its expenses from day to day by means of loans. Future Budgets will have, like all Budgets, to be based upon the normal revenue derived from taxation. And what should be the total of such a Budget? According to the estimate of M. Ribot, late Minister of Finance, the total should be 18 milliards. More recent estimates are as high as 22 milliards.[1]

And yet the Budget voted for the present year, 1919, amounts to no more than 9 milliards (or, more precisely, to 8,926 millions), a somewhat startling discrepancy of figures! This modest figure is all the more surprising if it is compared with that of the last Budget voted before the war, which was for 5,091 millions. It seems, then, that in these five terrible years the French Budget has increased by only 3,945 millions, or 78 per cent. Moreover,

[1] The future Budget may be estimated on the following basis :—

(i) Pre-war Budget	5 milliards.
(ii) Rise in salaries resulting from the increased cost of living	2 ,,
(iii) Interest on loans for the expenses of the war	8 ,,
(iv) War pensions and demobilisation grants	4 ,,
(v) Interest on loans for the reparation of war damages ...	3 ,,
	22

these figures exaggerate the real increase, for the receipts for 1919 fall short of the estimates. For example, the tax on payments and purchases of luxuries will yield not more than 150 million francs, though the estimated receipts were 900 millions. How trifling this increase must seem beside the increase in the English Budget, which in the same period has been more than quadrupled. In fact, before the war the English total was approximately the same as the French, 200 million £, and the figure for 1918–19 exceeds 800 millions.

Anyone who saw these figures without knowing the history of the war would conclude that France had spent much less than England on the war. It is true that she has spent a little less, but the difference is, after all, not so very great. From August 1st, 1914, to the end of the first quarter of 1919, France will have spent 158 milliards of francs (see the note to p. 132), while England will have spent, in round figures, 250 milliards (10 milliards of pounds). But if we deduct loans made by either nation to the Allies, viz., 50 milliards of francs (2 milliards of pounds) for England, and 7 milliards of francs for France, the expenses of the two countries are reduced to 151 and 200 milliards of francs respectively. The proportion is therefore as 75 to 100, whereas the two Budgets stand to one another in the proportion of only 43 to 100. How is this difference to be explained?

The reason is that in France the Budget of 1919 is swollen only by the sums necessary to provide the interest due on the four great loans issued in the form of perpetual *rente* (viz., a little more than 3 milliards for the repayment of interest) and by certain increases, sanctioned before the war, in the salaries of officials. No provision is yet made for the repayment of other war expenses or for the establishment of corresponding annuities. Nor is anything provided for refund to the Bank of France, for the reparation of war damages, for the payment of pensions to disabled men, widows, orphans, etc.[1]

Why these omissions? Because it is hoped that France will not have to pay, or at any rate will not have to pay the whole of these expenses, and because the actual total of the expenses which will have to be met must first be established before it is definitely included in the final Budget. That is what we were told by the Minister of Finance, M. Klotz, when he introduced the Budget. He did not promise not to make further demands.

[1] The projected Budget for 1920, which has lately been introduced, amounts to 10,305, but does not include any fresh taxation, the excess of expenses over the preceding Budget being covered by the sale of a part of the stocks of war supplies.

upon the taxpayer in his future Budgets, but he declared that he would make no demands upon him until he had exhausted every possible means of avoiding this terrible increase of 10 or 12 milliards.[1]

And by what means is it possible to avoid such an increase? Let us enumerate them without discussing them.

The first, and to all appearances, the simplest would be to make Germany pay. As regards the damage done to the invaded territories in France, the principle has been solemnly proclaimed in Article VIII. of President Wilson's fourteen points, and has, in fact, been accepted by Germany. On this first point there is therefore no difficulty in law; but there is a practical difficulty arising out of the discrepancies between the different estimates of the amount of damage done, which vary from 20 to 120 milliards! But President Wilson's points do not provide for any other obligation to repay; and as it was, after all, on the basis of these points that the Armistice was signed by both parties, it seems difficult to provide, for France alone, a relief of more than 2 or 3 milliards on the Budget.

Another method would be to pool all the war expenses of the Entente Governments and to divide them between the Governments in proportion either to population, as has been suggested by a deputy, M. Stern, or to their wealth, as was proposed by Italy. Whichever of these two alternatives were adopted, the share of France would be thereby considerably reduced, for neither in population nor in wealth is France to be counted among the first of the Entente States. England, and especially the United States, would have to bear the greater share. We ourselves put forward this suggestion in an article published a year ago,[2] but *cum grano salis*, and with the remark that such a system of redistribution would be too much at the expense of Uncle Sam and would assign to him somewhat too literally the *rôle* of an "American uncle!" But, more recently, other promoters of this system have pressed insistently for its acceptance. and have been at pains to demonstrate that it would do bare justice. The thesis is tenable; why not "a united Budget" as one said "a united front" and "unity of command"? But at the same time one should take care that such a proposition does not

[1] "If it appears that new taxation is inevitable, if it should prove to be the case that the French people, which did not want the war, must make yet further sacrifices, whether by direct or indirect taxation, I shall take the necessary action. But I shall not invert the order of these two factors."—*Speech in the Chamber*, December, 1918.

[2] ECONOMIC JOURNAL, January, 1918.

have the effect of provoking irritating quarrels between the States represented at the Paris Conference, as was the case when a French deputy proposed that population should be taken as the basis of redistribution. It is not easy to see Japan accepting the portion assigned to her under the system of redistribution advocated by M. Stern, namely, the payment of an annuity of 3,325 million francs a year. Still less is it possible to imagine that Russia would impose upon herself an annual contribution of 8,670 millions.

One resource remains, that of economies. Some economy appears to be realisable if the League of Nations can achieve the reduction of expenditure on armaments. The State might effect another economy by postponing the repayment of the Bank of France, for it pays only a very small interest (¾ per cent. at present and 3 per cent. from the signature of peace). But such an economy would be dangerous, and would moreover have little importance in relation to the huge figures of the Budget.

Whatever may be the fate reserved for these various proposals, it seems improbable that the hopes of the Minister of Finance and of the French taxpayer will be realised. Even if the United States and England were to grant exceptionally favourable treatment to France in the final settlement, even if Germany were bled white to the last limit of her resources, the French taxpayer could not hope to see his future Budgets remain at any lower figure than from 18 to 19 milliards. This figure would represent about 57 per cent. of the total of French incomes—57 per cent., that is to say, of those incomes as they were before the war. It is true that on account of the depreciation of the currency these incomes might amount after the war to twice, or perhaps three times, that figure. In that event the post-war Budget would not involve a proportionately heavier charge upon the resources of the country than the pre-war Budget. Inflation would thus have acquired yet another claim to the gratitude of taxpayers, if not of economists. But the revenue of France can also be increased, not only nominally, but really, by an intensified production, for France has not been by any means obtaining the maximum advantage from her natural resources in land and labour. Let us hope that this will be the solution.

Charles Gide

METHODS OF GRADUATING TAXES ON INCOME AND CAPITAL.

AMONG the formulæ known to me as having been suggested for the purpose of graduating taxation, a foremost place is due to the scheme proposed by Professor Cassel in the ECONOMIC JOURNAL.[1] Varying his notation, we may write

(i) $$T = r(X - E);$$

where T is the amount of the tax (in pounds sterling, or other monetary unit); r is a percentage or (decimal) fraction; $X - E$ is the taxable income; E is an abatement, not a fixed minimum, as Mill proposed, but varying with the income—not in an opposite sense as in many contemporary systems, but *increasing* with the increase of income.

(ii) $$E = \frac{XM}{X + M - e};$$

where e is the *minimum* of subsistence below which the tax does not descend, *e.g.*, £130 in the present British income-tax; M is the maximum abatement, a limit which is more and more nearly approached (but never reached) as X increases. Substituting the value of E in the expression for T, we have

(iii) $$T = r\frac{X(X - e)}{X + M - e};$$

an expression which becomes zero, as it ought, when $X = e$.

Distinction may be claimed for this scheme on the following grounds:—

(1) It is elementary, "intelligible to the most untaught capacity," a great merit in a principle of currency according to Mill, and doubtless some merit in a principle of graduation.[2]

(2) It exhibits a mathematical elegance, which is also a fiscal

[1] Vol. xi (1901), p. 485 *et seq.*

[2] Mill., *Pol. Econ.*, Book III., Chapt. xiii., § 2. The condition is less imperative in the case of taxation, inasmuch as the mathematical basis on which the contribution of the taxpayer is calculated need not be obtruded on his notice; it suffices that the authorities should promulgate an *arithmetical* schedule of the amounts payable on each amount of income or capital.

excellence,[1] in that it is capable of representing a great variety of tax systems by means of a very few adjustable coefficients or "constants."

(3) Of its constants two, C and M, are determinable *a priori*, so to speak, from a knowledge of the people's wants and habits; the third, r, being adjustable according to the needs of the Treasury.

The first merit is conspicuous. The formula involves only the common arithmetical processes; the operation which is highest in a mathematical sense being *division*. To illustrate the second feature I proceed to show how the formula is adaptable to actual tax systems. The first scale which I adduce is one relating to the continent of Europe before the war. The scale is constructed from the statistics of income-taxes in several European States as presented in a Blue-book dated 1913.[2]

TABLE I.—PRE-WAR CONTINENTAL INCOME TAX.

Income	£40–	80–	100–	150–	300–	500–	1,000
Tax per cent.		*2·64*	*2·92*	*3·47*	*4·29*	*4·84*	*5·11*
Income	£1,500–	2,000–	3,000–	5,000–	10,000	Maximum.	
Tax per cent.	*5·53*	*5·84*	*6·29*	*6·66*	*6·98*	*7·2*	

Each rate in this table is obtained by taking a Mean—that mean which is called the Median—of the rates pertaining to an assigned amount of income in each of several States. For this purpose several Swiss Cantons have been lumped together so as to count as one State. Also three minor German States have been similarly treated. For example, in order to determine the figure which is to be put for the rate of taxation of an income of £100 (up to £150) I utilise the following data:—

Prussia.	Bavaria.	Other German States.	Denmark.	Norway.	Sweden.	Holland.	Switzerland.
3·19	2·65	3·20	3·80	2·39	2·27	2·27	4·82

The "Other German States" are Saxony, Wurtemberg, and Baden, with rates respectively 3.00, 3.20, and 4.25; whereof the *second* in the order of magnitude is taken as the Mean. Likewise, 4.82 is the Median (half-way between the third and fourth in the order of magnitude) of the rates for six Swiss Cantons. The Median of the eight figures thus obtained is 2.92 (half-way between 2.65 and 3.20).

The exempted minimum for the majority of the States appears to be 40; and accordingly, I take that for the value of e. But as the tax for some States does not descend to 40, I have not formed a mean value for the rate between 40 and 80. At the other extremity the fixed proportion designated by r in the formula is evidently 7 per cent. (approximately).

As to M I have not attempted to determine this constant, as

[1] As pointed out in *A Levy on Capital* (by the present writer, 1918), p. 85.

[2] [Cd. 7100.]

theoretically possible, from the conditions of Continental life. For the purpose of illustrating the adaptability of the formula, it suffices to determine M from the condition that for some assigned income the rate given by the formula (with the two given constants) should be the actual rate shown in the table. Consider, for instance, the income £1,000, the rate against which in the table is 5·11 per cent., the tax therefore being £51·1. We have then by equation (iii):

$$51{\cdot}1 = 0{\cdot}07 \frac{1000 \times 960}{M \times 960},$$

whence $M = 355$. If we had taken the rate for 2,000 as the datum, we should have the equation:

$$2000 \times 0{\cdot}0584 = 0{\cdot}07 \frac{2000 \times 1960.}{M \times 1960}$$

whence $M = 390$.

If we put for M the nearest round figure, 400, that will be found, with the other constants, to give fairly good results. For instance, for the income £1,500 the tax as calculated by the formula is £82·4; actually it is £82·9. For income £5,000 the tax calculated is £324; actually it is £333.

The formula fits well many other pre-war tax systems, characterised by the feature that as the income increases indefinitely, the rate approaches a fixed and small proportion.[1]

But when we turn to war income-taxes we find that the ultimate fixed proportion is no longer a small percentage. Thus the British Income-Tax, as modified by the Budget of 1918, rises to above 50 per cent. From the new scale as given in full by Mr. W. M. J. Williams in the *Journal des Économistes*[2] I select some specimen data. The earlier figures relate to "wholly unearned income." For the later figures income-tax (at 6*s*. in the £) and sur-tax are combined.

TABLE II.—BRITISH INCOME-TAX, 1918.

Income in pounds.	Tax in pounds.	Shillings per pound.
200	12	1·2
1,000	187·5	3·9
10,000	4,187·5	8·4
20,000	9,437·5	9·5
40,000	19,937·5	10·0
100,000	51,437·5	10·3

Proceeding as before, let us put 50 per cent. as (approximately) the ultimate fixed proportion, while for e we have 130. From

[1] Seven per cent. in the example above given, eight per cent. in the example worked by Prof. Cassel (with a somewhat different notation) in the *Economic Journal* for 1901, p. 491.

[2] June, 1918, p. 316.

these data there follow inferences as to the abatement which are not consonant with the *third* of the merits above claimed for the Cassel formula. In accordance with equation (i) put $T=0{\cdot}5(X-E)$. Then in order that the equation may be satisfied when $X=10{,}000$, we have $4187{\cdot}5=0{\cdot}5(10{,}000-E)$. Whence E, the abatement, is £1,625; rather a high figure for necessaries! But it is not the highest figure implied. Employing equation (iii) we have:

$$4187{\cdot}5=0{\cdot}5\frac{10{,}000\times 9870}{9870+M},$$

whence $M=1915$![1]

If we are to abandon the *rationale* of Professor Cassel's formula, and to treat it as simply empirical, a further simplification may be advised. Let us no longer treat the tax as a *function* of the abatement. On that arrangement if the taxpayer is, in Latin idiom, increased by a child, and obtains a corresponding increase of exempted income, an entirely new schedule has to be calculated. There would be as many schedules as there are varieties of abatement. But it is much simpler to treat the tax as a function of the surplus of the taxable income over and above the deducted abatement. There is thus room for the greatest variety in the grounds for abatement: children, wife, insurance; perhaps invalidity, perhaps change in the value of money, perhaps station in life.[2]

This change is easily effected by putting $e=0$ in the above written formula, and for X (the total income) x, the surplus above the untaxed abatement, which does not figure in the formula. The formula thus generalised may be written:

$$\text{(iv)} \qquad T=x\frac{rx}{M+x}.$$

For instance, utilising data furnished by the British income-tax for 1918, let us determine M and r from the equations:

$$\text{(1)} \qquad r\frac{39870^2}{M+39870}=20{,}000,$$

$$\text{(2)} \qquad r\frac{870^2}{M+870}=187{\cdot}5.$$

[1] The practice of the English Law with respect to the "necessaries" of "infants" may be referred to as justifying some extravagance in the estimate of what is necessary for persons in a high station of life. See Anson *Contracts*, *sub voce* "Infants."

[2] The Australian Commonwealth appears to be particularly select and generous in the specification of grounds for exemption. See Commonwealth Report cited below, p. 151.

from which I find $M=1217$, $r=0.517$. Applying the formula thus determined to an income of £100,000, that is, a surplus of taxable income of £99,870, I find for the tax £51,140—much the same as the actual tax, £51,437 10*s*.

Is there any reason to think that we should fare better with any other formula involving only *three* constants (two in addition to the abatement, which is not explicit in the formula as now modified)? We shall be better able to answer this question after considering two defects which may be attributed to the formula, whether in its original or its generalised shape.

First, the formula is not suited to represent very steep graduations; the case when the rates of taxation increase very much more rapidly than the taxable incomes. Let x_1 and x_2 be two taxable incomes, the latter being the greater; and let ρ_1 and ρ_2 be the corresponding rates of taxation. Then by hypothesis, since the tax is to be progressive, ρ_2 is greater than ρ_1; say, $\frac{\rho_2}{\rho_1}=q$ where q is an improper fraction. Substituting for ρ_1 and ρ_2 their values obtained from equation (iv) (and remembering that $\frac{T}{x}=\rho$), we have $\frac{\rho_1}{\rho_2}=\frac{M+x_1}{M+x_2}\frac{x}{x_2}$. Whence it follows that q is less than $\frac{x_2}{x_1}$. But this is a limitation upon the progression which may be undesirable. It may be required that, as in the present American income-tax, while the tax on £1,000 is £16, the tax on £2,000 should be £71[1]: while

$$\frac{x_2}{x_1}=2,\ \frac{\rho_2}{\rho_1}=\frac{35\cdot5}{16}=2\cdot2\ \cdot\ \cdot\ \cdot$$

It may be pleaded that such steep graduation is abnormal. But it is doubtful whether any norm or standard can be prescribed for the income-tax as distinct from the *tax system* of a country. For the income-tax is usually complementary to other parts of the system, in particular to taxes on commodities and local taxation. Where the taxes on commodities were very heavy—pressing most heavily on the lower incomes—such a scale as that which has been instanced might well be appropriate. A formula adapted to general use ought to be better guarded against the objection which has been exhibited.

But grant that this objection is not very serious, especially

[1] It is true that in the actual tax the £1,000 and the £2,000 include the abatement, and so correspond to our X, not our x, but it might have been otherwise.

with respect to taxes on capital. Admit that the formula under consideration affords as good a fit as any other function involving only three constants, to the taxes on income and capital which are in actual use. Yet adaptation to existing forms is not the sole test of the adaptability which we require. Our task is not exactly that of the statistician who employs a favourite formula to represent a concrete set of data—a given "histogram." Our part is not so much that of the portrait-painter as of one who draws ideal "subjects." Our formula should be adapted to represent graduation, not only as it is, but as it ought to be. Now the Swedish designer of fiscal forms falls short of ideal perfection at one point. He may be contrasted with the sort of artist that was to be found in Rome, capable of modelling hair and nails to perfection, but unsuccessful in the composition of a whole.[1] Contrariwise, Professor Cassel's work as a whole is admirable. But he fails to represent one extremity in its ideal perfection. He copies it indeed perfectly as it actually occurs, compressed and deformed like a Chinese lady's foot. Such, I submit, is the character of the graduations commonly in use which approach, but never pass, a certain finite rate. Can any good reason be given for thus exempting the higher incomes and capitals from progression? Surely the exemption has not been adopted by officials as a deduction from the principle of "equal sacrifice" in accordance with the ingenious reasoning of Mr. Cohen Stuart.[2] "As soon as all personal wants are pretty well satisfied," he argues, "the possession of income has no longer any influence on consumption. It is a figure the increase of which by a certain percentage would give about the same pleasure to a man with 10 millions of francs per annum or one with 100 or 500 millions." Or is the reason one of those given by other theorists with less lucidity?[3] Could it be fear of alarming the millionaire, even when the final rate was so moderate as 7 per cent., as in the pre-war Continental taxes above cited? Was it a not unfounded belief that the condition of continual progression could not be secured by elementary arithmetical operations? Or simply poverty of mathematical resource?

II. Whatever may have been the reasons in the past for this lenity to millionaires, it may be doubted whether it will continue to appear reasonable in the future. There will be a demand for a formula fulfilling the condition of an effectual continual pro-

[1] Horace, *Ars Poetica*, 32.

[2] Discussed by the present writer in the ECONOMIC JOURNAL, Vol. VII. (1897). p. 559.

[3] *Loc. cit.*, p. 258-9.

gression. The following formula seems to satisfy those conditions:

$$\text{(v)} \qquad x - T = ax^{\beta},$$

where, as before, x is the excess of income or capital above a specified minimum; T is the amount of the tax; $x - T$, say, y, may be described as the "available surplus," that which remains to the taxpayer (over and above the exempted minimum) after he has paid the tax; a and β are numerical constants, β being always fractional.

An example will form the simplest explanation of the scheme. The example is furnished by the American Federal Income-Tax of 1917.[1] I transcribe part of the schedule, commuting dollars into pounds sterling.

TABLE III.—AMERICAN FEDERAL INCOME-TAX.

Income......	£1,000	2,000	4,000	12,000	20,000	100,000
Tax	£16	71	236	1,356	13,936	38,536

From the information given I assume that £400 may be treated as an exempted minimum.

To determine a and β we must utilise two of the data, say, the tax on £1,000 income and that on £12,000. We have thus two equations:

$$\text{(1)} \quad a(12{,}000 - 400)^{\beta} = (12{,}000 - 400) - 1{,}356 (= 10{,}244).$$
$$\text{(2)} \quad a(1{,}000 - 400)^{\beta} = (1{,}000 - 400) - 16 (= 584).$$

Whence (taking logarithms and eliminating a) I find for β, 0·967, and thence for a, 1·202, nearly. The construction will be found to fit fairly well at different points. For instance, for an income of £4,000 the calculated tax is £296, the actual tax is £236. For an income of £20,000 the calculated tax is about £3,000, the actual £3,236. Of course, if we had selected other points for an exact fit, we could have secured greater closeness of fit than now in the neighbourhood of those points. But we cannot expect with only three constants at our disposal to obtain a good fit at all points.

There is one tract, however, for which it is not in general possible to secure a good fit, namely, the lower extremity. As the income diminishes, we come to a point at which the tax is zero; and if we descended below that point the tax would pass into a bounty! This limit is given by equating the available income to the total (untaxed) income above the minimum, *i.e.*,

$$\text{(vi)} \qquad ax^{\beta} = x,$$

whence $x = a^{\frac{1}{1-\beta}}$. Thus in the example just now given, if

[1] As stated by the Guaranty Trust Company, New York.

Log $\alpha = 0{\cdot}079$, $\beta = 0{\cdot}967$, we have for the limiting value the number of which the logarithm is 2·4 nearly, *i.e.*, about 251. Which, added to 400, the minimum exempted, gives 651 for the figure below which the construction is not applicable.

III. The new formula seems specially suited to serve as a sur-tax. It may thus complement the Cassel formula when that fails at the upper extremity. At a certain point the new tax may be as it were yoked on to one of the Cassel type. To avoid a *jolt*, it should be arranged that at the point of junction the sur-tax should be zero.

To illustrate the composition of the formulæ I recur to the statistics of the American income-tax, and proceed to arrange that when the income has reached £2,000, a sur-tax of the kind described should be superimposed on a Cassel tax. For the calculation of the Cassel tax I make the convenient assumption that the highest abatement for "necessaries" which the American millionaire can claim, the M of the formula, is £800. As before, I take £400 as the minimum abatement. Then by equation (iii), for any assigned income, X, we have $T = r\frac{X(X-400)}{800+X-400}$. This formula must give us the whole tax for an income of £2,000, since the sur-tax is to be zero at that point. Putting for X 2,000, and for T the given taxation on an income of that size, viz., 71 (£), I find $r = 0{\cdot}05325$. Now let us take an income well above £2,000, *e.g.*, £20,000, and determine the coefficients of a sur-tax so that it may both (1) start at £2,000, and (2) at £20,000 may prescribe a tax which, superadded to the Cassel tax for that income, may be equal to the given tax, viz., £3,236. First, for the Cassel tax with the constants above calculated I find 1023·25. The sur-tax therefore should contribute (3236 − 1023·25), or 2212·75. That is, the available income should be (19600 − 2212·75) or 17387·25. We have thus the two equations:

$$(1)\ \alpha\, 19600^{\beta} = 17387{\cdot}25.$$
$$(2)\ \alpha\, 1600^{\beta} = 1600.$$

Whence I find for β 0·952, and for α 1·425. It will be found that this construction gives a fairly good fit at points not too distant from those at which the fit is by construction exact. Thus for an income of £4,000 the tax is by calculation £311, actually £236.

Satisfactory as this result appears, the formula from which it is deduced cannot be accepted as universally appropriate. For it violates the canon that, however large the income or capital may be, the tax should not be such as to deprive the taxpayer of the motive to work and save. To be sure, in the instance given

the breakdown is far enough off. The taxable amount would have to rise to some millions of trillions sterling before reaching the point at which an increase of the total income would result in a diminution of the available income. And very generally, if, as commonly, I think, it could be arranged that the fixed ratio r of the Cassel part of the formula should be small, not exceeding, say, 0·1 (10 per cent.), it may be expected that the breakdown is at a safe distance.[1] But possibly, and especially in a case above indicated,[2] the data may prove recalcitrant.

IV. To be safe from the danger which has just been indicated, it might be better to yoke the new formula with that of Professor Cassel, not abreast, so to speak, but *tandem*. Let the Cassel tax act by itself up to an assigned figure, say, as before, £2,000; and thereafter let the new tax by itself rule. We have only to arrange that the new formula should give the same figure for the tax on that income as the Cassel formula, namely, the given figure 71; and also that it should satisfy the datum for any other income, say, as before, £20,000. We thus obtain two equations for the constants α and β, namely :—

$$(1)\quad \alpha(1600)^{\beta}=1600-71.$$
$$(2)\quad \alpha\, 19600^{\beta}=(19600-3236).$$

From which I find $\beta=0·946$; $\alpha=1·42$.

V. Another method of employing the new formula (introduced in Section II.) as a surtax is to take for the primary tax, not the Cassel formula, but one of the new type, that one which does not become a bounty.[3] This condition is secured by putting $\alpha=1$ in the expression for the available income; which thus becomes of the form x^b (b less than unity). At a suitable point there is to be either added to, or, better, perhaps, substituted for, this formula one of the more general type αx^{β}.[4]

The first arrangement is not perfectly safe. But the danger is not in practice, I think, to be much apprehended. Consider, for instance, the example given in the lecture above referred to (*Levy on Capital*). According to the formula there offered as representative of the present English income-tax, the "available" income, say y (*i.e.*, the amount in excess of the exempted minimum, say x, less by the tax), may be written—

$$y=x^{.974}+1·22x^{.962}-x.$$

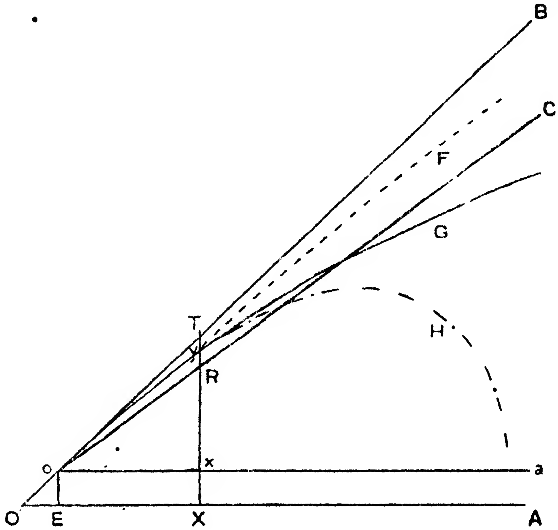
[1] Compare note to p. 147 below. [2] Above, p. 142.

[3] More exactly does not become a bounty until the taxable income is less than £1!

[4] The expression for y the ordinate which represents the available income becomes now x^b-T, where T is the surtax; $=x^b-(x-\alpha x^{\beta})=x^b+\alpha x^{\beta}-x$. Accordingly $\frac{dy}{dx}=bx^{b-1}+\beta\alpha x^{\beta-1}-1$; an expression which may ultimately become negative; like as the compound formula of Section III.

The expression for y continues to increase with the increase of x, up to a value of x which is above £10,000,000,000![1]

A geometrical representation of these constructions is offered below.



The abscissa measured along the horizontal OA from the origin O denotes income or capital. The ordinate Xy corresponding to any abscissa OX denotes the amount that the taxpayer has at his disposal after paying the tax—including an exempted minimum. The ordinate can never rise above OB, a right line, making an angle of 45° with OA. OE denotes the exempted minimum, an abatement varying for different persons, according to the number of children, etc. The abscissa ox measured from o as origin denotes the taxable income. The ordinate xy denotes the available surplus, being the taxable amount minus the tax. The length intercepted between y and the line oB represents the tax. A right line, oC, dividing all ordinates in the same proportion, represents a uniformly proportional tax above a certain exempted minimum (Mill's ideal). The curve-line oy is intended to represent a tax according to the formula of Professor Cassel. It will be observed that the rate of taxation (whether relatively to the total or the taxable surplus) continually increases. The abatement, too, continually increases. For, by equation (I), the abatement $E=(rX—T)\div r=(rx-T)\div r+e$. Now rx is denoted by TR in the figure; and T by yT; and the curve is such that yR (as well as Ty) continually increases.

The Cassel tax is supposed to function independently up to the point y in the curve corresponding to x on the abscissa. At that point the new tax is substituted. Beyond that point the dotted curve yF represents the continuation of the Cassel curve, the rate continually approximating to r: the vertical distance of the curve from the right line OC approximating to

[1] Analogously the example given below in Section VII., though manufactured to exemplify difficulties, has no terrors for the present method, which would continue to be applicable up to incomes of over £10,000,000,000!

the limit $r\ (M-e)$. The thick curve-line beyond y, yG, represents the new tax, as employed by itself, in Section IV. The tax is such that y, the available surplus, continually increases; while, at the same time, $T \div x$, the rate of taxation, also increases up to the limit of 100 per cent. The *broken* curve, which also diverges from y, represents the compound tax constituted by superimposing the new formula upon that of Professor Cassel after the manner shown in Section III. The *hump* at H in the curve, representing the available surplus, is designed to illustrate the particular case in which the compound formula would be inappropriate.

The figure also serves to illustrate Section V. The thick curve to the right of the point y may still represent the new formula as substituted in Section IV. The line to the left of y is suited to represent the curve $y = x^b$ as well as the curve which designates the available surplus according to the (generalised) Cassel formula; for both of which curves $\frac{dy}{dx} > 1, \frac{d^2y}{dx^2} < 1$.

So far, we have taken no account of the circumstance that the number of persons enjoying an assigned income or capital varies with the amount assigned. To represent this varying number, there would be required another dimension, a third axis—say z—perpendicular to the plane of x and y, the plane of the paper. The curve in the plane xz, which represents the distribution of incomes, may be expected to fulfil a well-known law due to Pareto.

VI. The systems which have been proposed encounter a formidable rival in a formula suggested by Mr. Douglas White.[1] He takes the exempted minimum as the unit of income. Then if the income measured in that unit $= X$ (to use our own notation), he in effect[2] puts for the rate of taxation (on the whole income) $r \operatorname{Log} X$, an expression which reduces to zero, as it ought, when $X = e$ (the exempted minimum). Considering that only two constants are here employed, r and e in our notation, the success which Mr. White has obtained is remarkable. But it is not greater, I think, than that which attends our new formula (introduced in Section II. above) when limited to two constants (*including* the abatement) by putting $\alpha =$ unity, as in Section V. The formula thus presented has the advantage of not involving the exempted minimum. It is free also from two defects which may be attributed to the White formula in common with a more general form to which we now proceed.

VII. Mr. White's formula may be generalised by employing a similar form, with a new constant, referring to the taxable income (above the exempted minimum); as thus,

$$\rho = r \operatorname{Log}\left(1 + \frac{x}{c}\right);$$

[1] ECONOMIC JOURNAL, Vol., XXI. (1911), p. 371 *et seq.*

[2] I must apologise to Mr. White and other authors for making rather free with their notations and conceptions for the purpose of the comparisons here instituted.

where x is now, as before, the taxable surplus and ρ is the rate of taxation on that surplus; c is a new constant. For example, to obtain a graduation on the lines of the American income tax, let us operate on the data for incomes of £1,000 and £50,000. We have then (putting for e, as before, 400) the two equations :—

$$(1) \qquad r \operatorname{Log}\left(1+\frac{49600}{c}\right)=\frac{13936}{49600}$$

$$(2) \qquad r \operatorname{Log}\left(1+\frac{600}{c}\right)=\frac{16}{600}.$$

Easily eliminating r, we obtain an equation for c which is approximately satisfied by $c=1,600$. The corresponding value of r is roughly 0·19. The formula thus obtained will be found to fit the given scale at different points fairly well.

But the construction will not work so well in all cases. It is open to the same objection as the Cassel formula that it is unsuited to represent very steep graduation. If $\frac{\rho_2}{\rho_1}$ is very large, larger than $\frac{x_2}{x_1}$, then it may not be possible to find a value of c which complies with the data. A more serious defect is the liability to excess of taxation at the upper extremity. To exhibit this, suppose it to be prescribed that the taxation of an income of £1,000 should be what it is for the present British income tax, namely, £187 10*s*. on £870 (the surplus above £130); but that for the smaller income of £200 the tax should be much less than what it is according to the British income tax, say, instead of £12, only £2 or a trifle less (on £70). As above remarked,[1] we cannot be certain that a progression which looks anomalous may not be appropriate to a (complementary) income-tax. The constants which satisfy these conditions are (roughly) $r=0·5$, $c=512·4$. Accordingly, in the neighbourhood of the points utilised, the formula thus furnished complies with the conditions of a workable progressive tax. But consider a point at some distance from these tracts, above £50,000. For this size of income the formula gives a tax greater than the income! But the extent of the failure is not fully shown by this result. At a much earlier stage, namely, just above £6,000, the formula ceases to be admissible because by increasing his income beyond this limit the taxpayer would incur *loss*. The *broken* curve yH in the figure may serve to represent this failure. On the suppositions just now made, H would correspond to a taxable surplus just above £6,000. The point corresponding to £51,000 would be *below* the axis oa!

[1] Above, p. 142.

VII. This fiasco may be avoided by dovetailing a curve of the type II. on to an initial tract of type VII., after the manner shown in Section IV.

VIII. There is a certain affinity between Mr. White's formula and another which has been proposed in the ECONOMIC JOURNAL by Mr. Steggall.[1] Mr. Steggall's scheme presents two distinctive features: (*a*) that between certain limits, *e.g.*, between 100 and 1,000 the tax on successive equal increments of income increases by an equal increment, *e.g.*, on the first hundred (exempted), 0; on the second hundred, 2*d.* in the pound; on the third hundred, 4*d.*; and so on. The total paid for ten hundreds will thus be $0+2+4+ \ldots +18$, an arithmetical progression of which the sum is 90, and accordingly the *rate* for 1,000 is 9*d.* in the pound. If this rate of progression were to continue, we should reach the rate of a pound in the pound too soon. Accordingly (*b*) it is arranged that the rise of 9*d.* in the rate per pound which occurred in the tract of income from £100 to £1,000 should thereafter be spread over a larger tract from £1,000 to £10,000. After £10,000 the next rise of 9*d.* is spread over the tract £10.000 to £100,000. And so on. It is this latter arrangement which has some affinity to Mr. White's construction.[2]

The other feature (*a*) of Mr. Steggall's plan is one that frequently appears in popular schemes of taxation. Numerous examples will be found in recent reports on the Income Tax.[3] A particularly good instance is furnished by the Wisconsin system. There the tax on successive increments of 1,000 dollars each rises from the first thousand to the fifth by $\frac{1}{4}$ per cent. for each 1,000 dollars up to the fifth thousand inclusive; and the result of these rates on successive increments is shown as the "true rate on whole amount" (of taxable income)[4]; that is, the rate in the usual sense which has been here all along adopted. There is no essential difference between the "Tariff System,"[5] as it is called in the Report, in which each successive increment is subject to a rate increasing in arithmetical progression and the simpler plan

[1] Vol. XXV. (1915). p. 136 *et seq*

[2] Observing that the logarithm of the taxable income, x, increases by equal increments as the tax increases by increments of 9*d.*, let us suppose these increments to become indefinitely small, and we obtain the simple relation $X=10^{bR}$; where R is the rate of taxation $(=T/X)$; b is a constant: whence $R=\frac{1}{b}\log X$, which corresponds to Mr. White's formula, *mutatis mutandis*.

[3] See 1906. 365; and 1913 [Cd. 7100], *passim*.

[4] *Loc. cit.* (1913), p. 178. The rise of the rate by steps of half per cent. from the fifth to the thirteenth thousand is similarly treated.

[5] *Loc. cit.*, p. 6.

in which the rate reckoned on the whole taxable quantity increases in an arithmetical progression.[1]

To obtain a continuous curve corresponding to the series of steps presented by such arithmetical progression, let us suppose that in any tract in which there is a uniform progression of the sort the steps become smaller and smaller.[2] In the limit the curve representing the rate of taxation will be a parabola. The common parabola emerges as an *eighth* form, as a candidate for the representation of the *rate* of taxation; and accordingly for the tax and the available surplus, a parabola of the third degree. The construction is only applicable to short tracts; otherwise, the continued increase of the tax would be fatal.[3]

IX. The parabola of higher degrees naturally follows here. The formula is recommended by its common use in many branches of physics. It is not, however, applicable to all branches. It is not adapted, for instance, to represent the extremities of groups of observations. For much the same reason it seems unsuited to represent taxation of the higher incomes and capitals. It has, however, the distinction of being, as far as I know, the highest in the mathematical sense of all formulæ actually adopted in the financial regulations of a great country. In the income tax adopted by the Commonwealth of Australia,[4] for the tract of income between £2,000 and £6,500, the expression for the tax (in pounds sterling) is:—

$$5333{\cdot}3 - 5x + \frac{12{\cdot}583x^2}{10^3} - \frac{1{\cdot}06}{10^6}x^3 + \frac{0{\cdot}03}{10^9}x^4;$$

where x is the taxable income over and above the abatement which is deducted from the total income. For incomes between £546 and £2,000 there is another parabola, one of the third degree. Below £546 the formula is more simply arithmetical. There is an abatement decreasing with the amount of income. If we regard each boundary of a discontinuous tract as impairing

[1] Some relations of the two systems are well exhibited in the *Mathematical Gazette* for May, 1916; referring to the Australian Commonwealth income-tax.

[2] Let us suppose that the tract of finite extent a is divided into an indefinitely large number of steps, each measuring Δx. Now at each of these small steps let there be added to the rate of taxation the very small quantity $b\Delta x^2$ (b a finite constant). Then the sum of the arithmetical progression which represents increase of the rate in the tract under consideration is $\frac{1}{2}\frac{a}{\Delta x}\left(\frac{a}{\Delta x}-1\right)\times b\Delta x^2$; i.e. $\frac{1}{2}ba^2$. Thus the increase of the rate of income is given by a *parabola*, of which a measured from the beginning of the finite tract may be taken as the abscissa.

[3] *Cf.* above, p. 149.

[4] See Official Yearbook of the Commonwealth of Australia for 1901–15; No 9, 1916, pp. 725–26.

simplicity and mathematical elegance in the same degree as an additional constant, we must pronounce the Australian tax somewhat deficient in that quality; taking into account the number of arbitrary boundaries, as well as of constants proper. In spite of, or rather in consequence of, its mathematical elaboration, the Australian formula has hardly any advantage in respect of continuity over the formless British income-tax.

X. If it is thought desirable to employ more constants than enter into the formulæ of Sections III. and IV.—that is, four excluding the exempted minimum—it is easy to take on an additional tax of the new type after the manner shown in those Sections.

To resume and conclude. Several formulæ old and new have been compared in respect of their use for the purpose of graduating taxes. In this comparison regard has been had to certain general conditions which should be fulfilled so far as practicable and consistent with each other. The conditions taken account of are chiefly (1) that the *functions* employed should be continuous [1]; (2) that they should be familiar [2]; (3) that the amount of taxation should never be so great as to make it the interest of the taxpayer not to increase his income or capital [3]; (4) that the rate of taxation, as the income or capital increases indefinitely, should converge not to a proper fraction (a percentage less than 100), but to unity (100 per cent.) [4]; (5) that the abatement which is to be free from taxation on various grounds (children, insurance, etc.[5]) should not enter as a constant into the formula for graduation.[6] To which it is perhaps to be added (6) that some of the constants should be, like the abatement, determinable from considerations of expediency other than their effect upon the result of the calculation, the amount of contribution prescribed by the formula.[7] Comparing proposed schemes, it is not possible to arrange them in an order of merit abstractly, without knowing firstly the end in view—in particular at what points of taxable income (or capital) it is expedient to lighten or tighten taxation—and secondly, the means available—in particular how many constants may be employed. If the graduation required is not very steep, several formulæ may be appropriate which would otherwise become impracticable. If the number of available constants is given, certain hypothetical preferences may be expressed. If (exclusive of, or in addition to,

[1] Above, p. 145, par. 2. [2] Above, p. 138. [3] Above, p. 146, 149.
[4] Above, p. 143. [5] Above, p. 141. [6] Pp. 141.
[7] Pp. 139 par. 2, 141 par. 1. The *graduation* of taxes either on income or capital is our subject: abstraction being made of *differentiation*.

the exempted minimum) only *one* constant is allowed, the form recommended is

$$T = x - x^b,$$

where T is the tax, x is the taxable income or capital, b is a proper fraction. If there are (besides the abatement, as before) *two* constants, we have a choice between these two expressions[1] :—

$$(1)\ T = \frac{rx^2}{M+x} \qquad (2)\ \mathrm{T} = xr\,\mathrm{Log}\left(1+\frac{x}{c}\right).^{2}$$

Sometimes, if the graduation is not very steep the latter is preferable; but it may be much worse.[3] If it is advisable to have as many as, and not more than, *three* constants (besides the abatement) there is recommended a combination of two prescriptions,[4] namely, (1) $T_1 = x - x^b$, (2) $T_2 = x - ax^\beta$.

If *four* constants are to be utilised, there may be advised a combination of the two taxes :—

$$(1)\ T_1 = \frac{rx^2}{M+x} \qquad (2)\ T_2 = x - ax\ .$$

By taking on an additional T, or more than one, any number of constants, odd or even, may analogously be employed.

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[1] Above, pp. 142, 149. [2] Ordinary logarithms. [3] Above, p. 149.

[4] T_1 is to be taken by itself up to a certain point—such a point, for instance, as that at which the supertax begins in the British system. After that point either T_1 and T_2 are to be compounded, or, perhaps preferably, T_2 is to be employed by itself.

THE MONOPOLY IN ALCOHOLIC DRINK

The licence to sell intoxicating liquor by retail is inherently different from other licences granted by the State. Other licences are given without restriction to all who are prepared to pay for them; there is no selection of some and exclusion of others in the licensing of persons to carry guns, or keep dogs, or display armorial bearings. The element of selection and exclusion is, on the contrary, of the essence of the system on which retail licences are granted; they are granted only to "fit and proper" persons, and only at the discretion of the justices; and in practice, as is well known, the justices are prepared to grant only a strictly limited number. There are thus many persons excluded for one who is selected, and the selected few enjoy the privilege arising from the exclusion of the remainder.

This limitation of the number of licences was treated from the earliest times up to 1904 as a matter solely of social, as opposed to fiscal, policy. It is very old—it is said that Dunstan and King Edgar suppressed many ale-houses, and would allow no more than one to exist in each village. The foundations of a regular licensing system for the sale of beer and wine were laid by the statutes of 1552 and 1553, which required keepers of ale-houses and taverns to obtain an authority (*which might be refused*) from the Sessions of the Peace or two Justices. The grant of spirit licences dates from 1701. In 1828 the incredibly numerous statutes relating to the licensing by justices of "fit and proper" persons to keep inns and ale-houses were consolidated into the Alehouse Act of that year, and, if we except the period during which the Beerhouse Act of 1830, authorising "free trade in beer," remained in operation, the statute of 1828, with its insistence on "fit and proper" persons and on the discretion of the justices to refuse licences, has been "the root of the jurisdiction of the licensing justices."

From the earliest times, then, it has been recognised and proved that the trade in alcohol is not one that can be permitted to go on except through the agency of persons selected by and under the control of the State; experiments—such as the Beer-

house Act, 1830—of leaving it an open "free" trade in private hands have always proved to be failures.

If not from the earliest times, at any rate for the last two centuries, the State has recognised that the trade in alcohol is pre-eminently a source from which it is legitimate, or even necessary, to raise revenue, duties on beer and wine licences dating from 1710, and on spirit licences from 1729.

And yet the history of the trade betrays an absolute failure up to the Act of 1904, and a partial failure since, to recognise that the fiscal system of taxation was the natural corollary of the administrative system of selective licensing—that taxation was capable of securing for the State, and ought to have been made to secure for the State, the monopoly values created by the licensing system. The policy of licensing and the policy of taxation have been persistently represented not as supplementary, but as essentially conflicting; Lord Hervey, in the famous debate on the Gin Bill of 1743, argued that the duty therein proposed "was designed as a fund for bringing money into the King's Exchequer," and prophesied "that in a few years the Justices of Peace . . . will soon have private directions, and a licence will be granted to everyone that desires it."[1] Lord Hervey was neither the first nor by any means the last to fall into the error of thinking that the financial interest of the Exchequer could be subserved by laxness in the issue of licences, and consequent depreciation of the monopoly values. In truth, the State is the creator and owner of the monopoly values; and, while it is true that it has given the user of them to licensed traders, often on absurdly low terms, it can never be to its financial interest to destroy or depreciate its own property. The true position is most clearly conceived if we consider the trade in alcohol as *a State monopoly farmed out, on the fiscal system of republican Rome or monarchical France, to a number of "publicani" or entrepreneurs*, for whom no exact English equivalent exists, but who are sufficiently designated by the non-committal term of *agents*.

The sale of alcohol, requiring specialised buildings—breweries, distilleries, and public-houses—and specialised plant, cannot be carried on without capital. The distinguishing mark of the British alcohol monopoly has been the fact that, in the fortuitous growth of the system, the capital has been provided by the tax-farmers or agents, and not by the State.

The organisation might, however easily have developed in the direction of vesting the required capital in the State; there

[1] Quoted by Webb, *History of Liquor Licensing in England*. p. 32.

does not appear to be any absolute right or wrong in the question which party should furnish the capital; and the proposal for "State purchase of the liquor traffic" in its financial aspect is nothing but a proposal that the ownership and burden of the capital required to work the monopoly should be transferred from the agents to the State; the agents would receive so much less remuneration for their services (and would receive it, in so far as they ceased to be capitalists, in the form of wages rather than profit); the State would take a larger share of the profits of the business than was the case when the agents provided the capital, and would accept the risk of the effect on profit of the change in ownership being adverse or favourable.

Any detailed discussion of the proposal of State purchase, even if confined to the financial issues involved, would extend this paper to impossible limits. But it will be clear, when the situation is viewed in this light, that the broad economic defence for State purchase is that the State, with its superior credit, could provide the capital necessary to work the monopoly at cheaper rates than is possible for the private *entrepreneur*. The set-off to this enhancement of the economic security of the monopoly is the danger of an aggravation of its political insecurity. Under present conditions the trade acts as a shock-absorbing buffer between the State and the different, and conflicting, demands of different sections of the community. And it is arguable that, with the removal of this buffer, accompanied by the fall in the cost of production which would be caused by the substitution of cheaper for dearer capital, the State acting as its own tax-collector would fail to obtain as good a price for alcoholic beverages as is now realised under the farming-out system.

From this point of view the effect on the price of intoxicants of the monopoly as it has hitherto been organised is of peculiar importance.

It would appear that the monopoly did not operate to increase the price of drink; drink would not have been appreciably cheaper even if the licensing system had never existed and "free trade in alcohol" had prevailed. This view certainly needs to be defended; but the arguments in its favour are strong.

If a monopolist raises the price of his commodity, he must produce (at any rate with any commodity which is not a prime necessity) a decrease in its consumption; a monopoly, that is to say, can affect price only by the deliberate restriction, at the discretion of the monopolist, of the output of the commodity,

such deliberate restriction being undertaken if the monopolist finds it more profitable to cater for a comparatively small and rich market than for a comparatively large and poor one. The existence of such a restriction of output (or inflation of price, for the two terms are in principle synonymous) will apparently betray itself by the fact that the reaction of increased purchasing power among the consumers will be an increase *in the price of the commodity*, not *in the quantity of the commodity consumed.* The monopolist is not likely to increase his expenditure on materials and other production-costs in order to extend his market, when he can, without increasing his expenditure, exploit the increased public spending-power not less effectively by putting up his price in the restricted market of his own choosing.

If, therefore, the alcohol monopoly had materially affected the price of alcohol, we should expect to find fluctuations of its *price* accompanying fluctuations of purchasing-power among consumers and an *absence of fluctuation* in the quantity consumed per head of the population. In actual fact, we find exactly the reverse—absence of fluctuation in *price*, and a very marked correspondence between the level of industrial prosperity and the *consumption* of alcohol.[1]

The correspondence appears to mean that the quantity of alcohol consumed has been determined by the demand of the public, and not by the discretion of the monopolists. If the monopolist is not controlling the quantity consumed, he is not inflating the price

The truth appears to be that the State has shared out the administration of the monopoly among too many participants to enable a policy of "high price and a narrower market" to be deliberately carried out. The trade in alcohol has never in practice been in the hands of a single monopolist; on the contrary, it has been farmed out to a number of agents sufficiently large to produce a competition of sellers almost notoriously ferocious. There never has been conspiracy to restrict sales and inflate prices; there has been active competition to develop sales and cut prices—or to give excess measures, which comes to the same thing.

It is not suggested that if the liquor trade had not been subjected to special taxation drink would not have been cheaper and consumed in greater quantities. The argument is that trade taxation increased drink prices solely by virtue of its effect on

[1] See, for example, Carter, *The Control of the Liquor Traffic* (first edition, p. 91); Shadwell, *Drink, Temperance, and Legislation*, p. 73.

the cost of production and distribution, not by creating an artificial restriction of competition among sellers, which is the essence of *monopolistic* inflation of price.

Alike, therefore, on statistical grounds and in the light of general knowledge as to the state of the trade before the war, there is every reason to think that the monopoly, as it then existed, did not appreciably affect the price of drink or the quantity consumed—that price and consumption would have been substantially the same had there been no restriction on licences, but free trade in alcohol had prevailed. The monopoly, that is to say, did not, either in intention or in effect, exploit the consumer, who obtained approximately as much alcohol as he wanted at an economic price.[1]

This is probably a condition of public tolerance of the monopoly; it is chimerical to think that the monopoly can be used to produce a drought of alcohol. The public will either reverse any such measure by constitutional means, or openly ignore it, or evade it by illicit manufacture and sale. The two latter results were the sole achievement of the notorious Gin Act of 1736, passed in the hope of reducing, or abolishing, the rampantly excessive consumption of spirits by the then unsupportable tax of a duty of 20s. a gallon on all retail sales and a licence costing £50 a year.

Under State purchase, the removal of the trade buffer would necessitate even greater watchfulness to avoid producing an artificial dearth of liquor by means of the monopoly, and to maintain elasticity of price and consumption; and it is here that the proposal begins to be speculative. The State will be buying and paying for the pre-war demand of the community for alcohol; it can have no guarantee that the post-war demand will be the same, and it will be subject to the necessity of adapting itself to future conditions, whatever, and however different, they may be.

If, then, the monopoly of the past was not sufficiently exclusive to eliminate the factor of competition in determining price, in what way does it operate to the benefit of those within its pale?

[1] During the last two years the State has been compelled to limit—not as a fiscal measure, but as one of food conservation—the amount of alcohol that may be put on the market. The monopoly has thus been intensified by the imposition of a restriction of output upon the top of the existing restriction of the number of licences. This intensification did directly cause an inflation of price, and a large increase in profit, the benefit of increase in price outweighing the disadvantage of decrease in the quantity sold. It was, however, an emergency war measure, and it is assumed that the limitation will be repealed as soon as the food situation allows.

As a minor consequence, by limiting the number of premises in which liquor may be sold, it has some effect in reducing the outlays for wages and working expenses, and so *increases* the profit to be made from a given turnover.

But its most important effect, at least potentially, is the reduction or limitation which it brings about in the capital which the profit is required to cover. Properly administered, a State monopoly should always be capable of keeping down the capital participating in the profit to a figure smaller than that which would prevail were the trade open to all; the Post Office monopoly, for example, is free from the necessity of selecting the best and most expensive sites for its buildings. A trade which is open and exposed to free competition will attract the maximum capital which it can cover with an economic return; the State, by such a system as that of selective licensing, can limit the capital to the minimum that is physically requisite to handle the product. Under free conditions capital tends to an economic maximum; under monopoly conditions it should be kept down to a physical minimum. In so far as a monopoly keeps down the participating capital, it *intensifies* the profit; and the main function of the alcohol monopoly is to keep down the capital to what is requisite, and no more.

Where, however, a monopoly is farmed out to a number of competing agents, it cannot be successful in its main function of limiting capital to the "requisite capital," unless the basis of division of the profit between the agents and the State is sound. The only sound division is that which leaves the agents with neither more nor less than a fair return on the requisite capital, and appropriates the whole of the residue to the Exchequer.

On the consequences of leaving the agents with less than a fair return on the requisite capital it is unnecessary to dwell; there would cease to be agents—a condition of things which has not arisen since 1736. It may, however, be observed that, since the return which it is necessary to allow on the capital will diminish as the security for that capital improves, and increase as it deteriorates, it is contrary to the financial interest of the State that the security of trade capital should be depreciated. For example, when it became apparent, between 1900 and 1904, that there was practical likelihood of magistrates refusing to renew well-conducted licences on the sole ground that they were redundant, the risks of trade capital were heavily increased. The broad financial defence for the Licensing Act of 1904 is that it restored security by providing that the renewal of licences could

not be refused without compensation, except on one or other of the four specified statutory grounds.

The consequences of leaving the agents with *more* than an economic return on the requisite capital are of uncommon interest; for this blunder has been consistently perpetrated since licensing began, and most of the weaknesses in the present condition of the trade are traceable to it.

Let it be assumed that the amount of profit earned is sufficient to provide an economic return on a capital of £400 millions, and that the buildings, plant, etc., can, under the monopoly system, be so reduced in number as to be provided for £200 millions. The annual value of the monopoly is then half the total profit, and the State should appropriate that half; if it fails, and appropriates only a quarter, the residue left to the agents will be adequate to pay an economic return on £300 millions. The assets furnished for £200 millions will instantly appreciate to £300 millions; and new capital will become engaged in the industry to enable purchasers to meet the purchase price of assets changing hands on that scale. In the end the State will be worse off by 25 per cent. of the total profit; and the agents will be no better off, their capital having been inflated above the amount of £200 millions required to work the monopoly to the best advantage, in proportion to the 25 per cent. inflation of their profit.

In practice the inflation of capital has been out of proportion to the inflation of trade profit; more capital has been attracted than the increase in profit could sustain. The smaller the proportion of the profit accruing to the State, the greater the margin of speculation as to the potential value of the trade's participation in the monopoly; and the greater the speculative value thus created, the greater the over-capitalisation involved. The trade is thus left positively worse off, and not merely no better off. Overfeeding is as actively bad for the trade as is inanition for the State.

This view of the matter exposes the mischievous fallacy of the common conception that the interests of the Exchequer and the agents are in conflict, it being the aim of each to secure the largest possible share of the total profit at the expense of the other. There is in truth no such eternal antagonism between the Treasury and the trade; there is a scientific limit to the proportions in which each can beneficially participate in the total profit.

The proportions in which the State and the trade participate in the total profit being determined by taxation, the above con-

siderations give almost a formula for fixing scales of taxation. Taxation should be on such a scale as to leave the trade with neither more nor less than a fair return on the "requisite capital."

This formula is more useful than it sounds. For the market in public-houses will quickly betray any inadequacy in the taxation-scale. If it is found that public-houses habitually change hands at sums above those prevailing in the transfer of similar but unlicensed property, it is a symptom that the trade are making profits more than sufficient to furnish an economic return on the requisite capital, that the margin is attracting fresh capital, and that in the interests of all the margin had better be diverted, by an increase of taxation, into the Exchequer. We have become so used to the notion that the capital value of a public-house is higher than that of similar but unlicensed premises, and that its owner can claim its "licence value" as well as its "structural value" as an asset in his balance-sheet, that we have ceased to feel proper indignation against a system of finance which permitted these accretions to trade capital to accumulate—accretions which, apart from any question of social justice, are sheer economic waste.

Section 4 of the Licensing Act, 1904, comes near to an enunciation of the proper principle in providing that, *in the case of new licences*, "such conditions shall be attached as the Justices think best adapted for securing to the public any monopoly value which is represented by the difference between the value which the premises will bear when licensed and the value of the same premises if they were not licensed." But this provision is a marked confession of past failure in taxation; if past taxation had been adequate to secure for the State the entire profit remaining after providing an economic return on the requisite capital—*i.e.*, the "value of the premises if they were not licensed" —the difference between the "value licensed" and the "value unlicensed" would never arise.

The weakness of the provision is that it first acquiesces in a deficiency in the scale of ordinary recurrent taxation, the result of which is to invest the licence with a capital monopoly value, and then seeks to redress the balance by exacting an additional capital impost on account of the monopoly value created by the inadequacy of recurrent taxation. It arbitrarily divides taxation between capital imposts and recurrent duties; and this division leads to serious difficulties of practice.

For it is impossible to assess monopoly value, unless the term for which the licence is granted is known. The monopoly value

of a licence which is subject to annual renewal depends upon the number of times the licence is renewed; it will be assessed too low if renewal is granted more often, and too high if renewal is granted less often, than the assessors anticipated.

There are in turn difficulties in fixing a definite term for the duration of a licence. A long term deprives the State of the power of dispensing with an undesirable licence, or of adjusting the number of licences in a district to changed conditions, and cuts at the whole root of the licensing system. A short term depreciates the security of the capital (including the payment on account of monopoly value) which the licensee adventures, and so increases, at the expense of the Exchequer, the proportion of the profit which must be left to him to make the adventure worth his while.

The Act of 1904, avowedly to meet the difficulty of assessing monopoly value without any definite basis for the duration of the licence, enables any new licence or lease to be granted for a definite number of years not exceeding seven, and subject to forfeiture during the term only on account of misconduct or the like. It will be conceded that a guarantee of seven years' duration is about the maximum that can be granted consistently with the requirements of public policy, and very few licences since 1904 have been granted for so long a term; but, on the financial side, the term is so short as to depreciate sensibly the security for the grantee's capital, and proportionately to diminish the Exchequer's participation in the profit.

These objections to the monopoly-value provision of the 1904 Act arise from the fact that the value has to be assessed on a capital basis. It may be noted that on more than one occasion Justices have attempted to assess monopoly value on an annual basis, *e.g.* by requiring payment of a definite percentage of the annual receipts; and that judicial decision (R. *v.* Amendt, [1915] 2 K.B. 593; R. *v.* Customs and Excise Commissioners, *ex parte* Jenkins, [1914] 2 K.B. 390) has laid it down that monopoly value must be on a capital basis, a definite lump sum to be ascertained once for all.

Over-capitalisation has been brought about not merely by failure to impose taxation commensurate with the value of the monopoly, but also by failure in what one would have expected to be most carefully safeguarded—failure to keep the monopoly intact.

We have already found reason to think that the consumption of alcohol under pre-war conditions approximated fairly closely

to the amount which would have been consumed under economically free conditions. This being so, it was the obvious duty of the State to see that the number of licences granted did not exceed the minimum number capable of handling this amount of alcohol consistently with the prevention of excessive drinking and the maintenance of reasonably comfortable conditions. It is now universally admitted that the State has failed even in this elementary function, and that the present number of licensed premises exceeds by one-third or one-half the ideal maximum; and the Act of 1904, with its slow scheme for the reduction of the redundant licences, has been introduced to mitigate this evil.

The State's past acquiescence in the accumulation of redundant licences has been injurious, not merely in creating redundancy of capital, but also in exaggerating working expenses. The redundant public-houses involve a large and unnecessary annual outlay, not only on account of additional wages and expenses of upkeep and management, but also on account of large additional disbursements occasioned by the intensification of competition, such as advertisement and price-cutting. Thus a substantial proportion of the annual turnover, which should have been profit under a well-organised system, is squandered in unnecessary expenses which benefit neither the State nor the trade.

The theory that an excessive number of licences is profitable is thus quite untenable. Beside creating unnecessary temptation to excessive drinking, they are financially a deadweight burden both on the trade and the Exchequer.

The radical fault of the present situation is the over-capitalisation of the trade. The first necessity is to prevent this fault from increasing; the maintenance of taxation on an adequate scale is the means to this end.

From this point of view the present time is critical. During 1916 and 1917 the intensification of the monopoly brought about by limitation of output enhanced the profit derived from alcohol; the addition, apart from the important but not altogether effective check of Excess Profits Duty, was allowed to accrue to the trade. The effect was seen in a marked rise in brewery securities and public-house values, distinctly symptomatic of a recrudescence of speculation and capital inflations. The Budget of 1918–19 imposed heavy additional taxation; it remains to be seen whether the addition was heavy enough to check the danger.

But the proper adjustment of future taxation to future conditions is not an ideally complete programme. The redundant capital has been allowed to creep into the trade balance-sheet,

and so long as it remains there, profit, which would otherwise be available for the Exchequer, is required to cover the redundancy. Liquidation of the excessive capital is thus an essential condition of the restoration of the revenue-collecting machine to ideal efficiency; and it is equally conducive to the true interests both of the trade and of temperance.

It would be a very long step towards real progress if this fundamental community of interest and unity of aim could be properly appreciated, and if the differences of opinion which exist could be treated as differences on the question of method, rather than the question of objective. When means are mistaken for ends, and preferences for particular methods are denounced as heresies or exalted into articles of faith, energy is dissipated and controversy runs wild. A critical study of the proposals now advocated by controversialists, treating them as so many different means to an agreed end and testing them by the criterion of their relative efficacy as instruments, would be interesting and fruitful, but would unduly extend the scope of a single article. But it is possible to indicate briefly how some of the main proposals, commonly supposed to be quite heterogeneous, are really only minor variants of a major theme.

It must be premised that even extremists do not in practice insist on *summary* recovery of the existing monopoly values by an abrupt increase of taxation equivalent to the proportion of the profit required to cover the redundant capital, leaving the trade to write off the redundancy as best they may.

One of the methods which the Legislature has adopted to enable the trade to make some kind of provision for writing off the redundancy is the method of time-limit, which is embodied in the Scottish Temperance Act, 1913, and formed the basis of the English Licensing Bill of 1908. Under this method warning is given to the trade that they must prepare, by insurance or otherwise, for a certain or possible reduction of their capital assets in a given number of years. This method of reducing the capital may be called "Postponed Reduction under Time-Limit."

From time-limit we pass to the method of gradual redemption. The Licensing Act, 1904, contains the germ of a system for the gradual liquidation of the redundant capital by annual payments spread over a number of years.[1] The 1904 scheme, however, contemplates only the redemption of the licence values

[1] It would not appear that any licensing bench has availed itself of the power of borrowing on the security of the future proceeds of the compensation levy, thus converting the process of redemption of redundant licences from an annual to a capital basis.

of such public-houses as are in excess of local requirements, without advancing to the further stage of redeeming all licence values, including those of houses which are really required. Moreover, the theory of the scheme is that the trade, not the State, finds the money and takes the betterment afforded to the remaining licences; and thus the scheme, while valuable in stabilising trade capital, is of no appreciable effect in reducing its amount. The scheme does, however, afford a hint of the possibility of reducing the redundant capital by the method of "gradual redemption by annual payments."

A third method is that of State Purchase, under which the State would acquire the whole of the trade assets (and so incidentally redeem the licence values), and take the whole of the profit (including the proportion now devoted to paying dividends upon, and providing reserves against, the licence values). This is clearly the method of "immediate redemption by capital payment."

Nor is the scheme of State Purchase, as above considered, the only expression of the method of immediate capital redemption; one subordinate alternative theoretically possible is to limit the capital commitments of the State to a system of State contributions, made as opportunity offered, towards the reorganisation and reduction of trade capital, each reduction being accompanied by a corresponding increase in the State's participation in the profit, in the form of increased taxation. The object of such contributions, and their defence, would be the improvement of a great instrument of revenue; and their success in effecting this improvement would be the test of their soundness.

The principal advantage of such a system would be that it would limit the State's liabilities; the contributions could be discontinued at any time if they proved unprofitable.

A beginning might be made with the early suppression of the 30,000 or 40,000 redundant licences now in existence. The proceeds of the compensation levy under the Act of 1904 are so small, and its administration so decentralised, that the operation of that scheme is interminably slow and only sporadically effective; nor, as has been shown, does it result in any appreciable net reduction of trade capital. The acceleration of this scheme by conversion from an annuity to a capital basis, and the transference to the Exchequer upon sound terms of the financial burden and the financial return, would mean a large improvement in the instrument of revenue, as well as in public order and sobriety.

Conclusion.

The common conception of the relations between the State and the trade as relations of natural conflict is inherently wrong. Conflict of interest arises only in a narrow field; in essentials, their interests are common. Until this community of interest is recognised, and the theory of essential conflict abandoned, legislation is not likely to proceed on sound lines.

There is undoubtedly community of interest as regards the security for trade capital; its exposure to unnecessary risks increases the profit necessary to cover it with an economic return, and decreases the share available for the Exchequer. Absence of excessive drinking is, of course, an essential condition of a high degree of security.

There is also community of interest as regards the division of the profit, up to the point where the State begins to ask for so much as to leave the trade with less than an economic return on its capital. The inadequacy of past taxation, which left an unduly large proportion of the profit to the trade, led merely to a corresponding expansion of trade capital. It thus injured the Exchequer without conferring the smallest benefit on the trade.

Failure to recognise this community of interest has reduced the monopoly to an inefficient condition. Some millions of potential Exchequer revenue are being wasted every year in paying dividends on wholly unnecessary capital.

The main requirements of the future are:

(1) To prevent a recrudescence of past blunders, by maintaining future taxation on an adequate scale.

(2) To effect a reduction of the redundant capital.

The method by which the second object should be effected is a question for critical and dispassionate discussion.

J. S. Eagles

NEW ZEALAND DURING THE WAR

New Zealand is a country very simply organised and depending for its wealth on a few primary industries. Almost equal in area to the British Isles, it supports only 1,162,022 people (1916),[1] and this population is scattered evenly over the islands. The four bigger centres—all ports and all widely separated—can muster only 34 per cent. of the people, even counting in their remoter suburbs; another 20 per cent. live in the smaller towns, but, roughly, half the population lives directly on the land. In the little country townships and distributing centres the primary importance of the rural industries is too obvious to be disputed, and although the larger centres tend, as towns will, to occupy themselves in meeting their own peculiar wants, yet there is general recognition of the predominant importance of the primary export industries.

A remote farm—for so we must regard New Zealand—must depend upon its own resources for many bulky, perishable, or peculiar commodities. So, in addition to its railways, tramways, electric light works, New Zealand has numerous small workshops engaged in repair and assembling trades and in the manufacture of such goods as bricks and cement. Similarly, there are many small works which use raw materials produced in the Dominion, and the protective tariff encourages the soapworks, tanneries, flour mills, woollen mills, as well as the wide range of machine-assembling shops and the more genuine manufactures, like those of boots and agricultural implements. But all this industry is small, and there is no exportable surplus, but more usually a constant deficit to be made up by imports. The census of production taken in 1916 showed 4,201 factories employing 48,770 work-people and producing goods worth £24,844,935 (included in which amount is the cost of raw materials, £14,419,584). Add in three big industries which are really concerned in making the primary products fit for export—meat-freezing, butter and cheese factories, and flax mills—and one reaches the total usually quoted, 4,670 factories, 58,000 workpeople, and a total gross output of £45,454,184.

[1] Including Maoris and Cook Islanders.

But the great industry of the country, and that on which all others largely depend, is pastoral farming in its two main branches—sheep-raising and, where settlement is closer, dairying. The bare hills of the back country have a sparse population of sheep roaming untended on their fenceless slopes; but as one comes down to the more closely settled lands—and the margin of settlement is being pushed back year by year—the farms decrease in size, the wire fences are more frequent, and mixed farming becomes the rule. This means that cultivation is introduced; but agriculture, ever since the development of refrigeration, has been the handmaid of the more profitable pasture industries; root crops and fodder crops are grown for winter feeding, not for export, and during the war New Zealand found constant difficulty in getting enough wheat to supply the demands of her own population.

So the chief products of the country are wool, meat, butter, and cheese, with all their subsidiary and by-products. In 1916 pastoral products furnished 87 per cent. of our exports. This is our surplus available for export. We bartered, in 1913, 96 per cent. of our wool (195 m. lb.), 80 per cent. of our lamb (901,000 cwt.), 62 per cent. of our mutton (1,093,000 cwt.), and 14 per cent. of our beef (261,000 cwt.). Similarly, we export about two-thirds of our butter (398,000 cwt. in 1916) and practically all our cheese.[1]

More wealth, again, comes from the mines, though New Zealand is not blessed with the variety of mineral wealth that Australia enjoys. Gold is the biggest item; but the production of gold has been falling steadily for many years, and is now little over a million pounds sterling annually. It is, of course, all exported. Each year two and a quarter million tons of coal are mined, mostly for domestic use. Against an export in 1913 of 205,000 tons must be set an import which varies greatly but at least balances the exports.

The fisheries are negligible, and one reflects sadly that, at the present rate of progress, the forests will soon be negligible too. Most of our national heritage has already been destroyed, much of it wantonly, and the native trees are too slow growing to be replaced. The supply of white pine, which makes fine, odourless butter boxes, is almost gone now, and of other timbers the supply may last perhaps thirty years. And the tragedy of it all is that we never had even adequate import values in exchange for our national capital; most of it was burned or exchanged for a song.

[1] About 850,000 cwt., figures of production not quite satisfactory.

The only other forest product, the fossil kauri gum, is also nearing exhaustion, and it is a bitter reflection that, because of our scientific ignorance, we left it to be dug by alien immigrants and exported at low prices to Germany to be made into varnishes. Another characteristic product, the native flax (Phormium), is partly prepared and then exported as a substitute for manila, but its price fluctuates so enormously that the manufacture has never progressed.

We are forced back therefore upon the pastoral industries, and it is upon our exportable surplus of these primary products that our wealth and prosperity depend. It is to the external trade, then, that we must first turn in reviewing the effect of the war upon New Zealand.

I.—External Trade: (*a*) Exports.

1. *Rising Prices.*

As soon as the first uncertainty of trade was past and Britain began to recover from the initial shock of war, and to find that, after all, financial panic and ruin had not resulted, it was very evident that the exigencies of war would ensure a strong demand for New Zealand products. The "outlying farm" shared fully in the general impetus given to agriculture. All its products were urgently necessary, wool was needed for the Army and all food-stuffs that could be got to Britain were sure of a ready market at advanced prices. The by-products, too, shared in the boom and some gained unwonted prosperity. Such were flax, the output of which increased enormously, and scheelite, the supply of which was commandeered at prices meant to stimulate future output as well as pay for the present limited production. All the export commodities were in great demand.

Within the country, too, the position was equally strong. According to official figures, there was insufficient wheat for domestic requirements, and naturally prices went up. Similarly, the manufactures, particularly of woollens and boots, were stimulated by what was to all intents and purposes a war protection in the shape of increased freights, and in many cases the impossibility of importation, at the same time as there was a sudden demand for the equipment of the Expeditionary Force. New industries grew up, too, in the new conditions, and some, like the manufacture of dried milk, have apparently been built up solidly.

There were added stimuli to industry as a whole, and especially to the export industries, from the movements in the price-level. The strong demand was, of course, expressed in

higher prices; but under the abnormal circumstances a divergence, wholly in favour of New Zealand, was soon manifest in the price-levels of Britain and the Dominion, a divergence which Britain found herself unable to adjust because of the imperative necessity for imports and the impossibility of exports.

Ordinarily a rising price-level must benefit a country which, like New Zealand, is both a primary producer and a great debtor. The prices of her produce are more sensitive and rise more quickly than her costs of production, and usually than the manufactures she imports. More important still, one of her greatest charges is always her interest bill; but this is a fixed amount, payable in sterling, so that in times of rising prices, a less and less quantity of goods is needed to pay the charge for the service rendered her by the capital invested in her development. What is true nationally is true individually. Probably the most important person in the Dominion is the "cockatoo," or small farmer, a peasant farmer who either leases his farm of 200 to 500 acres from the Government at a fixed money rent, or owns the land himself subject to a Government or private mortgage at a fixed rate of interest. In times of rising prices his rent or his interest remains the same, or if his mortgage has to be renewed, comes only periodically up to the new price-level; and so a long period of rising prices, such as followed the turn in 1895–6, means ever-increasing prosperity.

This usual stimulus of rising prices New Zealand gained from the war, but with an extra force due to the divergence of the price-levels and Great Britain's inability to readjust them. Prices have gone up in Britain far more than in New Zealand, mainly for two reasons, the inflation of the currency that was almost inevitable in the Motherland, and the rigid control maintained in New Zealand over the prices of essential commodities. Unfortunately, there are as yet no index-numbers of wholesale prices for New Zealand; but some evidence to support the argument may be gained from a comparison of the cost of living index-numbers, though these tend to exaggerate the position, emphasising as they do food prices and neglecting prices of clothing, which have apparently risen about equally in Britain and the Dominion. Not only clothing, but all imported goods, especially machines, have risen much more than food in New Zealand, and so the costs of production will have advanced much more than the cost of living figure, though not, in my opinion, as much as the price of New Zealand goods in the home market. Between July, 1914, and March, 1918, the cost of living appears to have risen in Australia

30 per cent., New Zealand 34 per cent., United States 51 per cent., Canada 70 per cent., and in the United Kingdom 107 per cent.[1]

Another scrap of evidence may be found in the wage increases granted by the Arbitration Court, but these again must be qualified, for they refer only to certain trades and those mainly in the towns. A number of trade unions including the more militant sections of labour, dissatisfied with recent decisions and seeking greater freedom to strike, have withdrawn their registration under the Arbitration Act. Moreover, the farm labourer, who of course is totally different from the farm labourer under the peculiar three-decker—landlord-tenant-labourer—system in England, is not, as a rule, and possibly never will be, a unionist. The Arbitration Court has consistently refused to make an award for farm labour. So that these workmen, and especially the casual harvest labourers, have probably gained greater increases than those granted by the Court, which, according to the Board of Trade Report, varied from 4½ per cent. to the painters up to 37½ per cent. to the shearers.[2]

The average rate of increase is estimated at 20–25 per cent. Against the extra increases gained by men outside the Court must be set the influence of the periodic nature of the Court's decisions, which of necessity mean that the level of wages lags behind other prices. While the unregulated wages can approximate fairly closely to the cost of living or to sudden changes in demand, the award rate lags behind. This, however, is more apparent than real, because the experience in New Zealand has been that in practice the award rate which is set as a minimum does not become a maximum also, and it is probable that wages rose more than is shown.[3] Unemployment decreased and more overtime was worked, and these factors would put up the costs of production.

But making all allowances for costs increasing more than the price and wage increases quoted, the divergence between the level of prices in Britain and in New Zealand is still fairly great, and from that advantage the Dominion has drawn a big war profit.

[1] Report of the New Zealand Board of Trade.

[2] The shearers form an exception to the rule that farm labour is generally unorganised. They form a separate craft in Australasia, highly skilled and very efficient. Beginning in early summer in Queensland, many of them work Australia from North to South, cross to New Zealand in the new year, and work down through the islands. The short winter spell they spend either in other jobs or in well-earned leisure.

[3] An investigation into wages in Christchurch showed that over a considerable range of industries 60 per cent. of the work-people were getting more than the minimum award rate.

2. *Shipping Difficulties.*

The great anxiety throughout the war period has been for the safety of the sea-routes. At first von Spee's squadron in the Pacific was a source of danger and then odd raiders interfered; but trade was not greatly hindered till the unrestricted submarine campaign began. The risks had by that time, however, been taken over by the Imperial Government.

In 1915, moved by the urgency of obtaining food and raw materials in sufficient quantities, the Imperial Government began the process of buying outright the supply of various essential commodities. From March 1st, 1915 onward, the whole export of frozen meat has been commandeered at agreed prices; from September of the same year scheelite was taken over; in October 15,000 tons of cheese—over one-third of the supply—was taken; and in the succeeding years the whole supply was requisitioned. Similarly, the wool clips of 1916–17, 1917–18, and 1918–19; the butter output from the season 1917–18; sheep-skins, hides, and calf-skins from the early months of 1917; and large quantities of condensed milk have been bought by the Imperial Government.

In every case the prices were agreed upon after consultation with the owners of the commodities, merchants and shippers, and there has been periodical revision of the prices and terms. Liberal increases have been given on pre-war prices, *e.g.*, the wool clip of 1916–17 was bought on a basis of 55 per cent. above the ruling prices of 1913–14, but the increases were probably lower than might have been gained from unfettered competition. In the latter years of the war there was a tendency to complain that other countries had made a harder bargain than we had, and there was much comment on the very great difference between the price paid to the New Zealand producer and the wholesale and retail prices in Britain.

But even supposing that other countries extorted higher prices and that in consequence prices in Britain had to be fixed midway so that a loss on one side was balanced by profits on the other, even then the guaranteed price and assured sale were worth any such problematical loss.[1] Particularly was this so when the shipping difficulty became acute and it was not possible to transport the whole produce of the country overseas. Great quantities of frozen meat and other commodities banked up in New Zea-

[1] Possibly some of the divergence between prices in New Zealand and in Britain may be explained by the naïve claim made to the Committee on National Expenditure, that since the Ministry of Food was self-supporting, it could not be said that any waste resulted in national loss.

land, and necessitated constant additions to the refrigerated storage capacity of the Dominion. Normally this would have meant a disastrous drop in prices; but the goods so stored had been bought and, by an arrangement with the Imperial Government, had been paid for up to 90 per cent. of their value. This arrangement, by steadying the prices, was probably advantageous to both parties, certainly to New Zealand.

The actual value of exports is shown by the following Table A, and a comparison with Table B will show how inflated prices have

TABLE A.—*Principal Exports of New Zealand*, 1913–17.

	1913.	1914.	1915.	1916.	1917.
	£00·000	£00·000	£00·000	£00·000	£00·000
Wool	8·1	9·3	10·4	12·4	12·2
Mutton, frozen	1·6	2·1	2·9	2·5	2·5
Lamb, "	2·3	2·6	3·0	2·4	1·4
Beef, "	0·3	1·0	1·6	2·1	2·0
Butter	2·1	2·3	2·7	2·6	2·0
Cheese	1·8	2·6	2·7	3·5	3·9
Hides and skins	0·3	0·4	0·6	0·7	0·5
Tallow	0·7	0·7	0·8	0·8	0·6
Phormium	0·8	0·5	0·6	1·1	1·2
Timber	0·3	0·4	0·4	0·4	0·4
Total	18·3	21·9	25·7	28·5	26·6
All exports	23·0	26·3	31·7	33·3	30·6

TABLE B.—*Principal Exports of New Zealand*, 1913–17, *valued at* 1913 *prices.*

	1913.	1914.	1915.	1916.	1917.
	£00·000	£00·000	£00·000	£00·000	£00·000
Wool	8·1	9·5	8·5	8·0	7·7
Mutton, frozen	1·6	2·0	2·2	1·9	1·6
Lamb, "	2·3	2·5	2·6	2·1	1·0
Beef, "	0·3	0·8	1·0	1·3	1·1
Butter	2·1	2·4	2·3	2·0	1·4
Cheese	1·8	2·5	2·4	2·7	2·6
Hides and skins	0·3	0·4	0·5	0·5	0·2
Tallow	0·7	0·7	0·8	0·7	0·4
Phormium	0·8	0·6	0·6	0·7	0·6
Timber	0·3	0·4	0·4	0·4	0·4
	18·3	21·7	21·2	20·2	16·9

enriched the country. The drop in the quantity exported will be specially noticeable in 1917, and is, of course, due, not so much to decreased production as to the storing up of great quantities of produce in the Dominion. Despite the fact that over 100,000 men left New Zealand to fight, production seems to have been

kept up—the sheep were shorn, and there were actually more sheep and cattle slaughtered during the war period than usual. It is, however, satisfactory to notice that this production has not trenched on the capital store of the country. The flocks of the Dominion show an increase from 24 millions in 1913 to 25 millions in 1917, and cattle have increased in the same period from 2 to 2½ millions.

(b) Imports.

There has naturally been a far greater disturbance of imports than exports, because to the difficulty of shipping is added the difficulty of procuring supplies from the Motherland. The enemy countries in normal times did not supply a very big percentage of the Dominion's imports, but the war cut that section of the trade off at a stroke. In 1914 Germany sent to New Zealand goods valued at £620,000, but the statistics showing the country of origin brought up the total of German-made goods to over £1,000,000. The biggest item seems to have been manures, but there were big shipments also of motor car tyres, pianos, all kinds of chemical manufactures, glassware, machinery, hardware, and fancy goods. All these orders had to be diverted, and extreme difficulty was found in getting them filled. Britain, faced with the task of improvising an Army, and then of feeding, clothing, and supplying it, cut off from much of the raw material of her industry, and with an adverse foreign exchange when she most urgently needed imports, was not able to keep up with the demands for her exports. Prices rose astonishingly, and it is due to this inflation of values that the import statistics of New Zealand appear to show that the trade did not fall off.

In the abnormal circumstances it is not surprising to find that the distribution of the trade has altered materially during the war. With Germany shut out and Britain unable to supply her normal customers, the United States, Canada, Australia, and on a lower amount, Japan, have gained considerably. Many factors contribute to the expansion of trade with the United States of America—the lowering of the 1913 tariff stimulated exports of wool, and this reacts on imports; the opening and regular usage of the Panama Canal have shortened the route and encouraged more regular sailings; and, finally, there is the considerable factor of similarity of development in many respects—so that there is every reason to expect that the United States will take a much more prominent position in the trade of New Zealand as time goes on. The figures for the war period are very instructive.

Imports into New Zealand from Principal Countries, 1913–17.

	1913.	1914.	1915.	1916.	1917.
	£0·000	£0·000	£0·000	£0·000	£0·000
United Kingdom...	13·31	11·99	11·14	13·87	8·82
Australia	2·91	3·38	3·55	4·00	3·66
United States	2·11	2·28	2·60	3·97	3·90
Fiji	0·85	0·74	1·13	1·05	1·20
Canada	0·45	0·48	0·80	0·76	0·76
India	0·42	0·49	0·53	0·57	0·65
Japan	0·15	0·19	0·30	0·56	0·63
Ceylon	0·28	0·39	0·41	0·37	0·35
Germany	0·69	0·62	—	—	—
Total	21·17	20·56	20·46	25·15	19·97
All countries	22·29	21·86	21·73	26·34	20·92

II.—The Industrial Situation.

(*a*) Labour Conditions.

Any statement of the industrial situation must take into account the differences of economic structure that are to be observed when conditions in a new country are compared with those in older and more developed lands. Everyone who comes from New Zealand to Britain must be struck by the sharp division drawn between the industrial classes, one had almost said castes; not only between professional classes and manual workers, but between skilled and unskilled, and very often between occupations. Such distinctions become very blurred in New Zealand, and this perhaps is why trade unions have not the solidarity or fighting strength of the British unions. There are, of course, great numbers of workpeople who are dependent upon wages for their livelihood, but the line separating them from their employers is not at all clearly marked either socially or industrially. There are many one-man businesses in the Dominion, and in most occupations, particularly perhaps in farming, the escape from wage-earning is comparatively easy. Even for the 25,000 civil servants and the large groups of employees of public and semi-public bodies the land often offers an avenue of escape.

There is less specialisation by occupations and within occupations. The bearing of this fact is evident when the prospects of seasonal unemployment are considered. The comparative infrequency of this kind of unemployment, though the main industries are seasonal, is due very largely to the fact that, both industrially and geographically, labour is extremely mobile. The comparative scarcity of labour is another considerable factor in

reducing unemployment; what labour there is, is extremely efficient and is supplemented by machinery, for instance, in rural occupations, to an extent not commonly realised. Part of the reason why wages are so high is found in the planning of work one sees in a big shearing shed, the use of a great deal of machinery and the pace and skill of the workmen.

There is no "reserve army of labour," unless in that phrase one may include the children of the country, the womenfolk, who more than in older lands occupy themselves mainly with housework, and the older people. Any sudden demand must be met by extra effort, by increased use of machinery, or by better organisation. A calculated system of State interference—regulation of wages, control of housing and assistance towards ownership, pensions of right to old people, widows and orphans, and rigid control of immigration—has, in a country naturally rich and peopled by chosen immigrants and their descendants, reduced what has been called the residuum to vanishing-point.

The war brought a stimulus both to export trades and to the home industries, but already there was practically no unemployment except the almost inevitable loss of time in casual occupations like wharf-lumping and to a less extent building. The departure of the Expeditionary Force and the steady stream of reinforcements month after month till 100,000 men had left the country meant an additional strain on industries. Wages in the primary industries rose very quickly and farm labour became very difficult to procure. In the towns, too, wages rose in the unregulated trades and in regulated trades as the arbitration awards expired. What little unemployment there was vanished, and a good deal of overtime was worked, but was not always paid for (in unregulated trades such as clerical offices). The professional classes, the civil servants, and the clerical staffs of the bigger businesses were faced with a rising cost of living and a more strenuous occupation on the old scale of remuneration. In the latter years of the war, however, the Government granted large amounts, approximating £400,000 annually, as bonuses to the civil servants.

(*b*) The Cost of Living.

It is never easy to measure changes in the cost of living, and the peculiar difficulties of war time make the official estimates hardly as valuable as normally. The official index-number published each month is based on current retail prices of foods, together with figures of rents. In the war period clothing and

similar imported commodities rose much more than foods, so that the rise estimated by the official methods is probably a good deal below the actual fact. In the figures given below rent has been omitted because the methods of calculation were changed midway in the period. But it is stated by the Government Statistician that, except in Wellington, rents were nearly stationary, and in any case a great number of people own their own homes in New Zealand and so a rise in rent is not quite so important.

Index-Numbers of Retail Prices, in the Average of the Four Chief Centres, 1913–16.

(Base : Annual average annual expenditure, four chief centres, 1909–13 = 1,000.)

	1913.	1914.	1915.	1916.	1917
Groceries	1023	1076	1201	1214	1297
Dairy produce	1050	1054	1154	1288	1364
Meat	1047	1158	1222	1321	1437
Weighted average	1037	1098	1197	1268	1360

The figures given above, while no doubt an underestimate, indicate that the cost of living did not rise as much as in Britain. Nevertheless, the rise was made a basis for much agitation. For a time after the passing of the Military Service Act there was a possibility of industrial trouble on the west coast among the miners, but the reason was almost wholly political. With this exception the slight industrial unrest has been concerned with the cost of living. For many years past the awards of the Arbitration Court have been based mainly on two factors, the cost of living and the ability of the industry to bear a rise in wages. It was natural, therefore, that the award rates should rise; civil servants and teachers received large bonuses also; and, not least, extreme pressure was brought on the Government to increase the allowances made to dependants of soldiers and to raise the scale of pensions. The New Zealand private soldier gets 5*s*. per day, of which 3*s*. must be deferred or allotted, and, under pressure of public opinion, the Government raised the allowance to a wife from 1*s*. to 3*s*. per day and for each child from 9*d*. to 1*s*. 6*d*. per day. At the same time the pension rates were increased till a private soldier may receive the maximum for total disablement, £2 per week, plus £1 for his wife and 10*s*. for each child; or his widow receives £1 10*s*. if there is no child, and if there are children £2 per week, plus 10*s*. per week for each child.

(c) Control of Prices.

One very powerful factor in keeping down the cost of living has undoubtedly been the rigorous control of prices exercised by the Government. The fixation of prices has been drastic and accompanied by extensive interference with the supply and exchange of various important commodities. The comparative isolation of the Dominion and the simplicity of its economic organisation have rendered the task of control fairly easy.

Difficulty came almost immediately when the prices of wheat flour and bread went up very quickly in 1915. *Primâ facie*, there was good cause for this sudden rise; the official statistics showed an estimated production of 4,500,000 bushels, and it was known that the Dominion normally uses 6,000,000 bushels per year, and that there was little chance of importation at any but very high prices. Some of the larger millers acted promptly and secured control of about half the estimated supply, which was withheld from a market already uneasy. The obvious effect was to cause spirited competition among the smaller men, and wheat prices went up to more than 7*s*. per bushel. The Government fixed the price at 5*s*. 3*d*., but this price was evaded or ignored until the publication of threshing returns showed that in reality there were 6,500,000 bushels of wheat in the country. Meantime the Government had imported Canadian wheat in large quantities, and this was sold to millers at a fairly heavy loss. The false alarm caused by wrong statistics (due to an ill-advised policy of retrenchment in 1909) proved to be a source of loss to the country, not only through the direct loss on the Canadian wheat, but also by the indirect damage to the National Dividend which resulted from the speculative price of wheat forcing up the prices of flour and bread.

The following season, 1915–16, saw a bigger yield, though the yield per acre dropped from 29 to 21 bushels. In response to the Premier's appeal, backed by a guaranteed price, the area under wheat increased by 50 per cent. to 329,000 acres, yielding over 7,000,000 bushels. In 1916–17, however, the acreage dropped again, and a dry season in the South Island kept the yield low. The Canadian yield had also decreased, and early in the season the Australian export price had been advanced. The Government, however, advised in good time by the Board of Trade, which had been appointed under the Cost of Living Act, 1915, took prompt steps to meet the emergency. A million bushels at 5*s*. 6*d*. were bought in Australia and served to tide over the shortage.

The New Zealand harvest amounted to little over 5,000,000 bushels, but from June, 1917, regular shipments of the Australian wheat came to hand. There was a slight loss of £6,689 on the transaction, but the public was saved from any fear of supplies failing and the fixed price saved speculative rises. The whole of the 1917–18 crop was guaranteed at 5*s*. 10*d*. per bushel, and the price of bread is fixed at from 9½*d*. to 11*d*. the four-pound loaf, according to different localities. It was necessary also to purchase from Australia another 4,000,000 bushels to make up the shortage of the crops of 1916–17 and 1917–18. The Board of Trade has extended its activities to the investigation of the prices of butter, fish, meat, sugar, milk, petrol, coal, eggs, timber, footwear, gas, iron, wire, and to a list of forty-five grocery articles, and in most cases has fixed the prices. It is charged also with the investigation of any complaints about unduly high prices or breaches of the Commercial Trusts Act, 1910. Some of the investigations have been most systematic and valuable, especially those relating to the timber trade and the coal industry, which is being surveyed in all its branches from producer to consumer.

Some of the experiments made are of great interest. For instance, the price of butter rose in September, 1916, in sympathy with the "Home" demand, to the unwonted price of 1*s*. 9*d*. per lb. An outcry was raised against the "butter ring," proceeding from the obvious grievance of the consumer who saw the price rising more than the costs of production and naturally felt that he was being exploited. But the mere fixing of a price might only have diverted production into the export trade or encouraged the making of cheese. So a compensatory scheme was introduced, analogous in many respects to the cotton experiment in Lancashire, whereby an export tax of ¾*d*. per lb. provided a fund which was used to compensate the companies which sold butter in New Zealand at the fixed price of 1*s*. 7*d*. The scheme was in operation till September, 1917.[1]

Similarly, an investigation of the meat trade showed disproportionately high prices in Auckland, and, in order to keep the prices down, two State shops were opened and run at bedrock prices for the whole year 1917, after which the master butchers adopted the scale of prices fixed by the Government. Sugar is easy to control, being in the hands of a monopoly, the Colonial Sugar Company, which draws its supplies of raw material from Fiji. An arrangement was made in June, 1916, whereby the

[1] From the season of 1917–18 onward the exportable surplus of butter was commandeered.

price f.o.b. Auckland for No. 1A sugar was fixed at £21 per ton. Since June 30th, 1917, the price has been raised to £22 10*s*. per ton. By these arrangements it is estimated by the Board of Trade that the Company has sacrificed £432,000 annually.

Another interesting experiment is the series of arrangements made with persons interested in the manufacture of boots, whereby it is hoped to produce a steady supply of boots at reasonable prices. After investigation arrangements were made with tanners, manufacturers, and retailers in an endeavour to get a steady supply of certain specified lines of boots, which will be stamped with a Government mark in guarantee of their quality. No information is, however, available yet as to the actual working of the scheme.

III.—Banking and Finance.

(*a*) Bank Deposits.

High prices for exports have naturally resulted in large bank balances. The Board of Trade gives a series of figures representing deposits in trading banks and savings banks, but excluding the interest-bearing deposits of the trading banks. The purpose of the table is to calculate the amount by which the currency has been increased, but it serves also to show the comparative increase in bank deposits.

Yearly Totals of Deposits.

	£m		£m
1910	30	1914	38
1911	33	1915	44
1912	33	1916	53
1913	34	1917	61

This table is abundant evidence of the prosperity that has come to New Zealand as a result of the war, because it is no banking boom that is represented. Bankers in New Zealand have so recently emerged from the troubles that followed the unsound banking policy of the 'seventies that they are not likely to begin again the policy of lending money on inflated land values. A fair indication of the policy adopted can be found in the ratio of advances to deposits, and the following table shows that a conservative policy has been adopted during the war.

Comparison of Deposits and Advances in Trading Banks.

	Deposits.	Advances.	Ratio of advances to deposits.
	£m.	£m.	Per cent.
1910	25	20	79
1911	27	23	84
1912	26	24	95
1913	26	24	93
1914	28	25	91
1915	31	25	78
1916	38	27	71

Other evidence can be brought in the advance of credits in the Post Office Savings Bank from £17 m. in 1913 to £26 m. in 1916, and in private saving banks in the same period from £1,800,000 to £2,400,000.

(*b*) Currency.

Early in the war period the notes of the six banks operating in the Dominion were declared legal tender, and the export of gold was prohibited. Gold has gradually been withdrawn from circulation and its place taken by bank notes; but there does not seem to be any ground for regarding the issue of these notes as adding to the currency. The increase of notes in circulation has been as follows:—

1913	£1,700,000	1915	£2,800,000
1914	£2,000,000	1916	£4,000,000
		1917	£5,400,000

There have been no further interferences with the currency except that 10*s*. and 5*s*. notes have been issued. It is interesting, however, to note that in 1915, when the foreign exchanges required that large shipments of gold should be made to New York in order to facilitate trade with Britain, New Zealand, like many parts of the Commonwealth, was called on to send bullion, and we find an item of £1,181,834 worth of gold in the exports to the United States of America.

(*c*) War Loans.

The direct costs of the war are not yet absolutely calculable; but in the Budget of 1918 the amount was put in the neighbourhood of £50,000,000. The actual expenses of the Expeditionary Force have been met out of the War Expenses Account, the revenue for which is derived wholly from loans, which up till March 31st, 1917, had totalled £27 m. Items, such as increased

interest on the National Debt and pensions, have, however, been paid for out of ordinary revenue.

In normal times New Zealand is a constant borrower, and loans are always falling due, so that the restriction of credit that followed the war presented an unpleasant problem. In 1917 alone £17 m. fell due, but the Imperial Government was persuaded to take over and renew this amount for another thirty years, a procedure which saved New Zealand not only the expenses of flotation of a new loan, but also a probable increase in the rate of interest. The accumulation of war profits in New Zealand, combined with financial stringency in the Motherland, decided the Government on a policy of local war loans, and in the year 1916–17 alone £18,000,000 was raised in New Zealand. The cost of flotation is much lower, and where a surplus exists such as was provided by the war profits the local loan policy is probably justified. In the 1918 Budget provision was made that any income-tax payers who did not contribute to the war loan in proportion to their income were to be penalised by an addition of 50 per cent. to their income tax. As an emergency policy this may be doubtfully justifiable; but in normal times the wisdom of floating local loans is decidedly open to question. There is no surplus of capital in the Dominion, but a very great demand for capital in industrial enterprises. If the Government enters this limited market in competition with private borrowers, the rate of interest must rise and development will be checked. There is much to be said for bringing into the Dominion as much capital as can be used to hasten development.

The public debt has, of course, grown enormously, and the increase has been in that part of the debt devoted to unproductive expenditure. A glance at the following table will show the change in the character of our borrowing :—

Allocation of the Public Debt.

	1891. £m.	1914. £m.	1917. £m.
Reproductive (Railways, etc.)	16	32	35
Investments (advances to settlers, etc.)	2	30	33
Indirectly productive (roads, etc.)	8	12	13
Unproductive (war and debt charges, etc.)	13	21	49
	39	95	130

The finances of the country will need to be carefully handled for the next few years, as renewals of the loans falling due will become increasingly difficult in a tight market. On March 31st, 1917, loans were outstanding to the extent of £130 m.; in the three years, 1920–22, £29 m. will have to be renewed; and in

the two years, 1930–31, £36 m. Successive conversions between 1891 and 1914 had reduced the rate of interest by 15*s*. per cent., but the average rate had risen again 5*s*. 3*d*. per cent. by 1917, and this tendency will probably continue.

The position of the debt would be strengthened if the sinking funds were improved. All the earliest loans had sinking funds attached, but during the long depression that followed the speculation of the 'seventies various Colonial Treasurers "released" the sinking funds in order to avoid increasing taxation. In 1910 the Public Debt Extinction Act was passed, and under it is set aside each year a sum sufficient at current rates of interest to amount in seventy-five years' time to the total of the debt. The period set—seventy-five years—is much too long, and the amounts set aside are very small, so that the funds amounted in 1917 only to £1,049,849. Other sinking funds brought up the total to £4,263,590, a very poor set-off against a debt of £130 m. The average rate of interest earned by the funds is £4 8*s*. 2*d*. per cent.

(*d*) Revenue and Expenditure.

Both the ordinary and the war expenditure of the Dominion have increased a great deal. The Budget of 1916–17 shows an ordinary expenditure of £14,058,770 as against £12,493,107 in the previous year. The principal item of increase was £842,087 in the charges for the public debt. Since then there has been a considerable increase, and military pensions now amount to over a million sterling each year. During the war, expenses were cut down by ruthless economy in public works expenditure, which fell from £2,760,798 in 1914 to £1,775,513 in 1917. All this economy will probably have to be made up, and the two great charges, interest and pensions, will also increase, so that there seems to be every reason to expect a continuance of the necessity for heavy taxation.

Taxation was heavily increased during the war period, though in a time of such prosperity one would like to have seen a heavier increase still. The revenue of New Zealand is derived from three sources: revenue from lands, receipts from services and taxation. Of these, land yields only £300,000 per year and does not offer much prospect of elasticity.

Extra charges were levied on the services rendered by State enterprises, like the railways and the Post and Telegraph Department; but the amount of net revenue derived from this source is small. The experience of New Zealand in this connection has some relevancy to the projects that would make nationalisation

of railways, mines, etc., a means of paying for the war. There is always the social factor to be considered, and constant political pressure is brought on a Government to reduce the charges to a minimum in order to help on some social project—*e.g.*, land settlement in New Zealand. Until 1909–10 the railways were expected to pay only 3 per cent., and any increased revenue was always followed by reductions of freights and fares. The difficulty of running a Government Department as a business concern and providing properly for depreciation and renewals, by charging adequate rates, is a very real one.

Since the war there has not been much increase in the traffic on the New Zealand railways; between 1914 and 1917 the number of passengers carried rose from 13,356,000 to 14,173,000, and the goods from 6,020,000 to 6,239,000 tons. But, owing to increased rates, the gross revenue rose steadily from £4,000,000 to £4,800,000, while the expenditure remained stationary at £2,900,000. In this way the net revenue was raised from £3 12*s*. 3*d*. per cent. on the capital cost to £5 5*s*. 11*d*. per cent.

Increased rates of this kind conflict at once with the social purpose of State ownership and raise the question as to whether the railways are built for revenue or to open up the country. In many other undertakings the social purpose would be absolutely defeated by raising the charges. Further, any very great increase in the charges levied defeats not only the social purpose, but, unless the demand is inelastic, the revenue purpose as well. New Zealand, which has entered more extensively into State ownership than most other countries, found that when an extraordinary increase of revenue was required, recourse to taxation was necessary. Unless it can be clearly shown that nationalisation would bring some monopoly advantages in the form of specialisation and improved organisation, sufficient to set against the probable loss of efficiency and still yield a surplus by a reduction of costs, the case for nationalisation must rest upon other grounds than revenue. Extra revenue obtained merely by raising the charges for services is simply indirect taxation.

(*e*) Taxation.

New Zealand has therefore been forced to rely upon heavier taxation. The customs tariff has been extended, a primage duty of 1 per cent. was levied on practically all imports, heavier duties were levied on high-duty goods, and considerable extensions of the preferential tariff were made, notably to all items of apparel,

drapery and textiles. The preferential surtax on foreign goods now extends to all important groups of imports.

The land tax was increased by a farthing in the £ on mortgages and an addition of 50 per cent. on the graduated land tax, which now ranges from 1½*d.* in the £ on land of an unimproved value of £1,500 (less an exemption limit of £500 and further deductions for mortgages) up to 10½*d.* in the £ on estates worth over £200,000. An additional 50 per cent. is paid by absentees.

Stamp duties were also increased and extended; but the amendments to the Death Duties Act merely altered certain exemptions.

An experiment was made in 1916 with an excess profits tax based on the British model. The duty was fixed at 45 per cent. of the excess of income over the "standard" income, which was calculated as the average income for 1912–14 or the average of any two of these years, or the income of any one year, or 7½ per cent. return on capital plus an allowance for personal exertion. This tax was abandoned in 1917 on account of the penalty it imposed in practice on the growing business. An amusement tax was levied in 1917, ranging from 1*d.* on charges from 6*d.* to 2*s.* 6*d.* up to 1*s.* on charges exceeding 12*s.* 6*d.*, plus 1*s.* for each additional 10*s.*

But the great bulk of the extra revenue came from an increased income tax. Since the 1917 Budget the rates range from 6*d.* in the £ where the taxable income is not more than £400 (an exemption of £300 is allowed to individuals) up to 3*s.* in the £ for incomes over £6,000. Separate schedules govern the tax for campanies, but the maximum is the same. In addition, there is a war tax varying from 9*d.* to 4*s.* 6*d.* in the £, so that the maximum rate payable is 7*s.* 6*d.*

Income tax receipts have risen accordingly, as will be seen from the following table :—

1914	£554,271	1916	£1,392,119
1915	£540,318	1917	£4,262,126

By means of this heavier taxation the Minister of Finance was able to announce a surplus of over £4 m. for the financial year 1916–17, and though no extra taxation was imposed for the following year, the surplus at his disposal grew to £8½ m., a fair nest-egg for the future. Provided that fairly heavy taxation is maintained, that the sinking funds are strengthened, and that no borrowing boom is started to meet the reaction that will follow the war, the financial position of New Zealand seems to be eminently sound.

J. B. CONDLIFFE

REVIEW-ARTICLES

LABOUR PROBLEMS: PAST, PRESENT AND FUTURE.

1. *An Introduction to Trade Unionism.* By G. H. D. COLE. (London: George Allen and Unwin. 1918. Pp. 128. Price 5*s.*)
2. *The Payment of Wages.* By. G. H. D. COLE. (London: George Allen and Unwin. 1918. Pp. 155. Price 6*s.*)
3. *Labour in the Commonwealth.* By. G. H. D. COLE. (London: Headley Brothers. 1918. Pp. 223. Price 5*s.* 6*d.*)

THESE three small books unfold a large and, we must add, a sinister design. The ability displayed is great and the knowledge wide and minute. As in all the author's writing the fine art of clear exposition and subtle, though elusive, dialectic is cleverly employed, often with admirable ease and skill, and it has been embroidered with deft phrase and smart epigram, the product of a biting, acid wit, and an acute and lively, if satirical, intellect. These characteristics are more evident than warm catholic sympathy or a generous enthusiasm even for the cause espoused; and the swift rapier-thrust is displaced inartistically by the brutal bludgeon-blow or by the crude threat of the empty blunderbuss. For the language used sometimes degenerates into the vulgar scream of coarse vituperation, and the tone and temper shown are marred by an assertive arrogance and petty caprice which are not the less provoking because they may seem to be forced, or are calculated to offend. We find it hard to believe always that Mr. Cole could seriously credit what he says, and he may be sardonically "laughing up his sleeve" when engaged upon the occupation he avows to be congenial of trying to shock estimable folk. But as he himself does not mince his words he will not complain of candour in his critic. He poses in the character, and is, we gather, highly pleased with the unlovely *rôle*, of a brazen apostle of revolution; and, according to his repugnant but authoritative dictum, the conception of a perpetual "class-struggle" is "fundamental" to his reasoning because it cannot

be excluded from the ordinary circumstances of our present daily life. On reform moderate or advanced he pours ridicule; and few preachers or teachers of change are so extreme as to escape his vexed condemnation or scornful contempt. We shall try to prove that the case is not conclusive, for which his "special pleading" is more academic than it is practical and the arguments put forward are not wholly consistent. But, if the letter fail, the spirit can scarcely be misunderstood; and we should be dishonest if we did not say at the outset that that seems to us not merely mischievous, but detestable. It was singularly inopportune to an extraordinary time of victorious national unity, and Mr. Cole is sensible that it may jar on the ordinary mood of average Britons, possessed, as he holds, perversely, but firmly, by liking for compromise. And yet to such a *via media* he himself, by the irony of fate, resorts in the constructive effort mingled with the more favourite business of destruction; for in those National Guilds which he brings forward, and regards as the probable or inevitable outcome of the changes that he presses on the organisation of Trade Unions, we can descry no more than a "half-way house." It is situated between State Socialism and the Marxists or the Syndicalists. But on the principles elsewhere affirmed, and in the disposition vaunted generally by Mr. Cole, we can discover little or no reason, or provide a lasting satisfactory excuse, for this strange halt. Why, we ask, as we rub our astonished eyes, should he pause here in his advance? Or, rather, why should he of all men travel back to this intermediate point? His behaviour, we suggest, is "academic" and the position artificial.

The soaring ambitions to which we have referred will not perhaps be visible on a hasty scrutiny of the first two of the three books embraced in this review. But they are related, it can soon be seen, to the third no less intimately than they are themselves linked together. Combined they certainly raise issues of gigantic interest, if their purpose was originally limited and their scope is modestly indicated in the prefaces. The first is thus announced, correctly, as "a *short*[1] study of the present position of Trade Unionism in Great Britain"; and the second, issuing from the same Fabian Research Department, is defined on the title-page, more narrowly, as "a study in *payment by results*[1] under the wage-system." Both volumes, too, are largely descriptive; and they will be welcome for their full and clear account of facts and compact, convenient summary of opinion to

[1] The italics are ours.

many readers who may not agree with particular conclusions reached or with the general standpoint taken. We should undoubtedly be grateful for the lucid, and indeed the masterly, survey provided in the first three parts of the former of the "structure," the "government," and the "problems" of Trade Unionism, and, in the latter, of the many divisions, sub-divisions, and cross-divisions of the multitudinous varieties of wage-payment, even by results alone, that have been found to be possible. Mr. Cole, it is obvious, has at his ready command a complete and accurate acquaintance with the philosophy and the history —the theories and the facts—of the industrial world of England in all its most recent phases. It is no small aim that he suggests when he proposes to provide in some measure a restatement for the present generation of the conclusions reached by Mr. and Mrs. Sidney Webb in their large standard works on the *History of Trade Unionism* and *Industrial Democracy;* and it is, similarly, no light task which is essayed to follow, after a long interval, the exhaustive "general book on the question of wage-payment" for which the late D. F. Schloss was responsible in his classic treatise on the *Methods of Industrial Remuneration.* An admirable precedent was then set which has been hitherto followed by no corresponding sequel. But we are sure that we shall receive support for our opinion that Mr. Cole has risen to the height required in both respects; and, for the present day, gaps which needed to be crossed are adequately bridged by him. His exactitude in detail can be as little questioned as his grasp of broad principles of comprehensive grouping must be recognised. A mass of new relevant material has been industriously collected. It is thoroughly digested and appropriately arranged; and students of all persuasions therefore may fittingly record their debt to so talented an expositor for the means to see and judge the salient facts and to learn and appraise the prevalent opinions of the Labour world of Britain at the present time in connection with Trade Unionism and with wage-payment by results. By the exertion of small trouble they can separate for themselves, accepting or rejecting as they deem necessary or fit, the dogmatic, narrow creed boasted by this robust believer in, and triumphant herald of, "class-war." He indeed loudly proclaims, and, as we can well imagine, is ready to administer, by consent or force, to submissive or reluctant patients, his own revolutionary specific. But in these two books at least apt and neat and just description can be parted from the offensive bias of rough, rancorous propaganda.

For Mr. Cole, as readers of his earlier essays are aware, is no discreet diplomatist in economic controversy. He is not anxious to reduce by adroit conciliation the number of possible opponents. On the contrary, he is more inclined to swell recklessly their ranks by haughty defiance or brow-beating truculence. He has, as we have just remarked, his pet plan of "reconstruction," to follow the demolition, or *débâcle*, which he hails with greedy joy; and we might have thought that he would seek by plausible persuasion or opportune concession firm support for his own programme in quarters likely to be friendly or not actively hostile. But his customary attitude is that of an irate schoolmaster chastising naughty pupils, or of a fishwife scolding rival vendors. He is not, nor does he apparently wish to be, an astute negotiator, winning golden opinions, as differences are gently smoothed, and difficulties are tactfully overcome He feels, we are sure, more gusto, as he shows more aptitude, for the exciting *élan* of daring assault than for the watchful tedium of patient defence. It may provoke a smile on the face of cool observers of the repeated quarrelling which has beset at most, if not all, times socialist agitators in the past, to find this laudatory displayer of the cunning new patchwork offered by his National Guilds describing, in the last book on our list, the Fabian Society as occupying the "left wing" among reformers who have been tried and have proved wanting, on the "right wing" of which the Charity Organisation Society will be discovered. They may perhaps feel, and show, equal amusement at the stern reproof gravely offered to no less high a personage in the hierarchy in which we might have expected our own author to be ranged than Mr. Sidney Webb. For that stout believer in the necessity and advantage of a trained, informed bureaucracy, vested with full authority to direct our every movement and supply all needs, is admonished by Mr. Cole because in one of his most recent comprehensive hand-books of final instruction—that on *The Works Manager To-day*—he "believes" and "assumes" that "manipulation" of men is a "science to be learnt and controlled by the expert manipulator." It is in this third book, as we shall see more fully afterwards, that Mr. Cole, if we may use the phrase, "lets himself go." It is addressed significantly to "the younger generation." To them, as compared with older, more experienced controversialists, we imagine Mr. Webb and his companions could be more plausibly ridiculed as reactionary rather than advanced, or, at any rate, be pictured without improbability as imperfectly equipped with a few rusty, antiquated weapons, and

not armed "cap-à-pie" in the latest, finished fashion of helmet, breast-plate, bomb-thrower, and gas-respirator. Mr. Cole throws aside restraint to which he has been subject in the other books; and he appears without disguise in the colours he has chosen of revolutionary propagandist.

In his new account, indeed, of Trade Unionism we could discover signs of a bias similar in spirit to that which, manifested more conspicuously in Mr. and Mrs. Webb's adroit review of the past history of that movement, was less evident in their more detached survey of its existing constitution, policy, and methods. As they interpreted previous developments as tending from the first in the special direction to the particular outcome they approved and desired, so "industrial," as opposed to "craft," unions, the rise, the attitude, and the acts of "shop-stewards," and other recent phases, are understood by Mr. Cole as pointing surely towards Guild Socialism. In Part IV. too of the first book, dealing with "Theories and Conclusions," inferences and beliefs which could be found by opportune search beneath explanatory descriptions in the earlier parts are brought nearer to the surface. The inclination to a favourite scheme of doctrine and a cherished plan of action becomes pronounced in the scrutiny of Wage-Payment in the second book. He does not conceal a marked difference separating his own treatment of that subject from the more impartial investigations of his predecessor, for he declares the purpose, of which there was no trace in Schloss's discussion, of handling the "problem from the Trade Union point of view." In fact, disproportionate space is filled with damnatory criticism of the fresh device of "scientific management"; and it is condemned irrevocably for conflict with new aspirations of Labour to the control of industry. Of that, in Mr. Cole's forecast, the shop-stewards are the obvious heralds, and, when duly trained and properly linked with federations of industrial unionism, will be the fitting agents. His close inspection of the new expedient of Transatlantic origin must be allowed to cast bright light into dark recesses, and some at any rate of his grim censure will be thought deserved. Acuteness is certainly displayed in the legitimate charge advanced against its grandiose pretensions to be "scientific" in the strict sense of the term, and in the justified reproach that such arrangements seem designed to reduce human beings to automata. But the particular moral specially stressed is that mentioned above—and it follows directly from the investigator's general standpoint. To the topic he returns, with the like intention, as we shall see, in the last of the three books enumerated at the head of this

review, and there, too, "scientific management" is sentenced finally for its opposition to democratic industry.

While the three books can be thus connected, it remains true that in the last the mind of the author has been most frankly disclosed. There, too, we can best gauge the full measure of his large ambitions. For he boldly aims at imparting a consistency which is lacking, and he aspires to lend the sure, methodical direction that is needed, to the thoughts and acts of Labour. These, or many of these, it will be acknowledged, have not been felt, or begun, or at least have not been expressed, or continued with their proper accompaniment of harmony and certainty. They have often seemed disorderly and tentative. Mr. Cole would replace discrepancy, confusion, and obscurity by lucid, ordered, definite reasoning, and he would guide, or push, what has hitherto been a hesitating or bewildered movement along a straight road towards a goal clearly seen and perseveringly pursued. He tries, in fact, to frame in the rounded shape of a complete, comprehensive system what has before been developed casually in disconnected piecemeal; and such an essay obviously runs the risk of becoming "academic." It is very likely to be so regarded and described. We are not surprised at the dissatisfaction with which, in this hard, if not doomed, enterprise, Mr. Cole complains bitterly of the British as "phlegmatic" and "conservative." He writes in angry, impatient scorn of the leaders of Trade Unions as previously prone to deal with facts as they arise in the wonted British mood of practical good sense, rather than look, or plan, ahead. He considers despondently the rank and file of their followers, and sees them obstinately impervious to theory and ideas. "The standard of intellectual interest in the British Labour Movement, and especially among the Trade Unions," we are informed by him, is "extraordinarily low." The remnant left in the ranks of Labour, after adroit selection by the "ruling classes" of men of rare quality, "lack driving power and constructive imagination"; and those from other classes who have been attracted to the Labour Movement are often "cranks" or disappointed men. But Mr. Cole, we gather, can supply immediately what is requisite, if his interpretation of what they ought to think be adopted, and his firm impulse to their strong action be obeyed, by those whom he would thus inspire and direct. Unhappily for this end he would, we also understand, use notions and foster prejudices which he should know to be exaggerated or absurd; and he constantly makes his appeal, in effect, not so much to broad, disinterested

hopes for the peaceful, united advance of the whole community as to the limited selfishness and stormy passions of one particular class, however large it be. For that is what is contemplated by the "Labour" of which he speaks. Even if the term has been of late loosely extended by slim politicians in the Labour Party to professional men working with their brains, it is not apparently meant by them, or by Mr. Cole, who agrees with this recent development, to include capitalist employers. Yet they may in fact "labour" with their heads as hard as, and with even more advantage to the community than, those who are in the main, by contrast, manual workers. Mr. Cole, indeed, in spite of his expressed intentions, does not find himself able to discard the abstractions to which he objects when employed by others, such as economists, or statesmen, or public men. His "personified Labourers" are removed in degree, but not, we suggest, different in kind, from the "de-personified Labourers" derided as untrue to fact.

A certain ingenuity, no doubt, may be said to characterise his attempted reconciliation of the continued influence of the organising State, representing the interests and meeting the wants of the public as consumers, with the independence of producers, controlling their own work. Such management, extending ultimately beyond arrangements in the workshops that will be the first immediate step to be taken, will be, as he holds, placed in the hands of unions organised by industries rather than crafts. The doctrine thus outlined of National Guilds has, he confidently maintains, the merits, without the defects, of Marxian Industrial Unionism. It tries to meet satisfactorily the revolt of Syndicalists disgusted with State Socialism. It is based, we are told, on the conception that political freedom can be properly found only in a combination of the ideas of democracy and function. This dictum may seem to savour of academic dialectics; and yet there are both subtlety and common sense in the allied contention put forward against the Hegelian philosophy, once favoured, but now sternly pronounced "out of date." This revision suggests opportunely that the individual cannot rightly be conceived as wholly absorbed in society, and that associations should be treated properly according to the purposes they profess and the functions they fulfil on behalf of the individuals who belong to them. The existence and the recognition of the law, Mr. Cole truly urges, may be needed to ensure real liberty, as Green and the Hegelians reasoned; but laws in their turn should conduct eventually to fuller freedom for the individual, or they become improperly ends

rather than means. And, similarly, emphasis is, as it ought to be, laid by him on the Commonwealth, or Commonwealths, more as a "means" than as an "end." Still, we are unable to rid ourselves of an uneasy reservation that, to the public specially addressed, all this dexterous fencing will appear mere intellectual gymnastic, withdrawn from wholesome contact with the rough and tumble of the ordinary affairs with which they are familiar, and that, far from sharing or sympathising with his standpoint that he can only "work in the light of an ideal," his would-be followers may by their attitude for a long while continue to justify his admission that the notions he is pressing have as yet a hold on an "infinitesimal fraction" of the workers in Trade Unions. His speculative theorising is not, as we judge, safe from the impeachment of being "academic" in the meaning that it is in truth fantastic, and not merely "caviare to the general" and unattractive or unintelligible to plain men. It is, we suggest, shaped, not to the facts as they are, but as Mr. Cole thinks they ought to be; for the severance of consumers from producers, to which he is not committed, is only more unreal than the divergence or the opposition of interests which his scheme of National Guilds implies. And, as we shall notice later, significant concessions that he is forced to make in the face of known circumstances are so limited by him that they fail to correspond with the full extent of ascertained practice. He cannot, it would appear, resist the fascination of *châteaux en Espagne.*

In his destructive assault on existing institutions and our present arrangements no deft balancing of alternatives is tried. The picture offered to his readers is evidently intended to be sharply drawn, and is garishly coloured. Suspicion can be cast on its *vraisemblance*, but no doubt will be entertained of its inspiration and its purpose. It is, nevertheless, as we shall try to prove, neither clear nor wholly consistent. The analysis of the two political parties of Unionists and Liberals, equally unkind to both, is smart and clever. It is mordantly satirical. Both are stigmatised as "capitalist"; and, while Unionists are classified and reprobated as (*a*) the true Tories, (*b*) the business Imperialists, and (*c*) militarists aiming at world-domination, the Liberals, similarly divided on a triple basis into (1) *laissez-faire* economists, (2) Nonconformists, and (3) Radicals, are dismissed contemptuously for seeking to combine individualism for the rich with collectivism for the poor. So ordinary politics and our familiar politicians are caustically handled. Still, as Mr. Cole proceeds in his hostile, ironical description of the "ruling classes," it is

surely significant that it is the "busy" and not the "idle" rich, the "lean and hungry," not the "fat," men against whom the Labour World is especially warned to remain on its guard. Is it easy, we would inquire, to reconcile this broad hint with previous or subsequent narrower declarations? Yet the "middle classes," we are further informed, enjoying an apparent freedom, which is, in fact, illusory, are now servile dependents of Capitalism, but they should, being bound to make their choice between the two, seek an alliance with Labour. Mr. Cole welcomes, for that reason, the growth of organisation among the foremen and the supervisors who now incline to belong to the middle classes, and he agrees, as we have seen, with the extension of the Labour Party to include the professional brain-workers, among whom experts in management might be reasonably treated as likely to be appropriately ranged. But, nevertheless, he also calls the early and the close attention of the Trade Unions of other more familiar, older types to the immediate need of training systematically men in their own ranks for their new work as the future controllers of industry. And again, while he complains that capitalists have in the past astutely drained the resources of the Labour World by choosing the more competent and more ambitious of its members for advancement, he admits that a parallel act has been proceeding. For the "bottom dog," as he terms them, in the shape of the unskilled, had, in effect, remained outside, or been shut off from active, potent guidance of, the Labour Movement, where the craft unions of the skilled have formed a dominant, or even an exclusive, aristocracy. All this ingenious, but fissiparous, pleading obviously needs further adjustment. As it is left by Mr. Cole, some contradiction between fact and theory remains and some internal inconsistency is apparent. Pure democracy, indeed, as Mr. Mallock has lately shown in an able, if prolix, book, if it be not impossible in practice, whether in industry or elsewhere, leaves, on the most indulgent explanation, something to be desired, and supplied from outside; and an oligarchy of genius or talent should be distinguished in its important bearing on the well-being of commonwealths from other more dubious and less necessary species of that name. Differences of natural ability will tell upon the places occupied by the possessors. Supervision of a sort is indispensable, and the work of control demands a modicum of training and some selection. Men are continually moving upwards to positions of command by their merits and capacity, as they remain below in consequence of a lack of these. Such are the commonplaces of the existing

order of affairs. They also hold their ground in "reconstruction"; and in Mr. Cole's designs he cannot altogether forget or ignore them, though they disturb the symmetry and mar the completeness of his argument. His intellectual carpentry is at fault for all its huge ambition and its ostensible cleverness. While each separate plank of his platform may exhibit a rude strength and offer a bold show of its own, the morticing together is not exactly finished, and the dovetailing leaves some awkward gaps which no cunningly woven or embroidered covering of smart comment or fierce assertion can effectually conceal.

Let us now look for a few moments at some of his concessions. The workers, for example, in the Labour movement, we are told, "are not entirely propertyless"; they are actually, as we are well aware, both corporately and individually, in increasing measure every day, possessors and controllers of large amounts of capital. "The proletarian outlook on history and economics," we are informed, "is narrow and even doctrinaire, and there is danger that one half-truth may replace another." The bare literal fact, we know from abundant illustration, is that working men and socialists are equally the slaves of fetishes and phrases, and are as prone to narrow dogmas of their own devising, as are the members of other ranks of society or those who announce or embrace different philosophies of life or systems of economic principles. The "wage-bargain of the English labourer" is admitted by Mr. Cole to be "several removes from chattel slavery," and yet, he adds with blind pertinacity, it is still of the "essence of slavery." This seems a ludicrous misrepresentation of the comfortable independence properly enjoyed by many a substantial artisan, asking and obtaining increased pay from his employer. Especially is this the case if he be backed by the collective bargaining of his powerful Trade Union, as perhaps Mr. Cole would allow. Yet he solemnly assures us, in apparent contradiction to what he himself has, as we have seen, deprecated as occurring to many individuals, that the "ordinary man under the present economic system simply does not get a chance of rising from subservience."

It would not be difficult to extract from his chapters a long list of exaggerated sentences and heightened phrases; but we must here be content with a few typical quotations. "The dispossession of Labour by the Industrial Revolution," and the "inhumanity of the factory with discipline imposed from above," are coloured expressions designed to mislead. "*La carrière ouverte aux talons,*" "the beastliness of the present system," the "machine-made edu-

cation of the poor," the "cowardice of reformism," "Lord Meath's detestable experiment of Empire Day," "a stake in the country does usually imply a stick in the mud," may be smart or pretentious sayings, but they certainly do not hide strong animus. The joint control suggested by the Whitley Report is, in a similar spirit of stubborn prepossession, doomed by Mr. Cole to failure from the outset, because it "overlooks the need for a fundamental change of status." "The economic system does not want mending, it wants ending," "palliatives are liable to be distorted into further means of enslavement," "the class struggle is a fundamental fact," are not very hopeful propositions on the lips of anyone, though they fall naturally from those of Mr. Cole. Education for efficiency is opposed by him perversely to education for citizenship; and, while as a tutorial class teacher he has been connected with the Workers' Educational Association, he feels, we cannot but suspect, even more sympathy than he acknowledges for the aggressive animosity towards capital, and the intense eagerness for disturbing change, which characterise the rival teaching of the Central Labour College, supported as it is by the contributions of the South Wales Miners and the National Union of Railwaymen. They are disposed, we are told by him, and know by repeated experience, to place themselves in the vanguard of advanced reform favoured by our author. We are not astonished that he should admire history as it is written, vividly, but by no means impartially, by Mr. and Mrs. Hammond in their painful, though deftly prepared and skilfully executed, books on *The Village* and *The Town Labourer*. Nor are we surprised that, after conceding that if "capitalism stopped to-morrow a mess would happen," he at once adds, in contented acquiescence, that *en revanche* a new order may be expected straightway to arise therefrom. We can well believe that he does not "mind exasperating many worthy people"; but we feel, nevertheless, that he is more formidable, not when he utters nakedly his reiterated prophecy of an inevitable class-struggle, hideously unlovely though that be, but when he tries to clothe the confused, unformed imaginings of those less able and instructed than himself in the specious garb of a finished system and a rounded scheme.

And, if we now return, in conclusion, to the other two books coupled in this review with that to which we have been giving detailed consideration, we can find further reasons for doubting the stability of the foundations on which such an ambitious superstructure has been built. When we inspect the trade unionist

world, as he submits it for portrayal, division, sub-division, and cross-division, a violent clashing rather than a complete, continuing harmony of interests, are the outstanding features on the canvas. They are more marked, and, as we should judge, they will be less readily deleted, than the inclination towards Guild Socialism, which he selects for special emphasis; and his perspective must be altered if it is to remain correct. The substitution, which he desires and expects, of "industrial" for "craft" unions is, he admits, barred by menacing obstacles. It is, indeed, hedged round with difficulty. Crafts are interlaced with industries, and both run across one another. "Overlapping," internal and external, is very prevalent. Crafts themselves, like industries, are, in particular cases, set in sharp opposition, and the causes of dispute are fundamental. They may even prove to be irremovable. The skilled are not always, or generally, to be found working peacefully with, or amicably disposed towards, the unskilled, who, in fact, are sometimes, or usually, treated more oppressively by their near companions, or by those who regard themselves as immediately superior, than by the managers, or the employers, or the capitalists, parted by a less or more considerable distance from close contact. "Demarcation" disputes, arising from changes small or great in materials worked, or tools, or machinery used, or methods of organisation introduced, form notoriously the subject of frequent, obstinate quarrelling, not the less acute and stubborn because the occasion may seem irrational, or the reasons trifling. Nor is the extension of unionism to foremen and supervisors likely to be smoothly effected in the future, while the crux of differences of sex in measuring equality of pay is a present perplexity, provoking no small friction. It is, indeed, a prolific cause of irritating ambiguity.

Among railwaymen, Mr. Cole himself informs us, the relations of the two chief unions are "distinctly bad." There is frank hostility, for which it is to be feared that the public has sometimes innocently suffered, between the Associated Society of Locomotive Engineers and Firemen and the National Union of Railwaymen. The latter, it may be noticed, includes locomotive engineers as well as less skilled workers, and is an "industrial" union; but men in the railway shops belong to other "craft" unions, and the clerks have an association of their own, which has refused, though acting on occasions in unison, to sanction fusion, with the National Union of Railwaymen. The success, therefore, of that amalgamation, though considerable, is far from complete. In the engineering trade, again, many "inter-union"

quarrels have taken place, and, as Mr. Cole regretfully acknowledges, serious difficulties "off-set a large numerical membership" of the organisation, found, notably, in the shape of the old Amalgamated Society of Engineers.

The broad distinction may, it is true, be drawn, as he points out, between "craft" unions and "industrial" unions formed of all the workers engaged on the work of "common production" or of "common service"; and the latter seem, as he wishes, to be gaining in numbers and power on the former. But what may be instructively distinguished as "employment unionism," following the lines of the employers' associations, may nevertheless impinge, as he indicates, on the strict opposition to capitalism alone, as such, which is accentuated purposely in industrial unionism; and what he calls "material" unionism, based on the use of one kind of material by the members, should be added as further complexity in a full account of the practice of combination. Justly, then, in the chapter on Trade Union "structure," where the theorising of the writer might in consequence be described as "academic," we find the disappointing, but true, admission made that "no single principle" can be seen "clearly at work" to-day, and that the antithesis between industrial and craft unionism, "seldom" present in a "pure form," is usually complicated by subordinate distinctions. He alludes, indeed, significantly to an "immense amount" of "sectionalism" and "overlapping" as an undeniable, if unfortunate, circumstance.

The recent growth of Trade Unionism may have been, as he maintains, remarkable. For the total membership, doubled within ten years, embraced in 1915 "at least" 45 per cent. of the male workers, and "perhaps" 10 per cent. of the female, and amounted to some four millions, while by 1918 Mr. Cole estimates that about five millions of persons belonged to British unions. But the strength is unequally distributed in localities and industries. In the North and the Midlands it is great, while in the South, with the exception of London, it has been small. In cotton it is as powerful as it is comparatively weak in wool. Coal-mining is most effectively organised, while agricultural labourers, until lately, have had little capacity for forming or maintaining unions. The newer unions, created largely among the unskilled, in the shape of "industrial" unions, are more loose, if also more flexible, in structure than the older "craft" unions, to which skilled workmen mainly adhere. The weekly "contributions" of their members are, by contrast, small, regular "levies" are generally unknown, and little or no provision, as a rule, is made

for friendly society objects, with the result that the reserve funds are not by any means so great in magnitude. From these notable differences an explanation is forthcoming of their preference for the quick, short strike, as they would not run the risk, and could not bear the burden, which confronts older societies, and steadies the action of their officials, though it can disappoint the more ardent, less responsible younger rank and file, when a dispute, which may be prolonged, is to be faced. But, although aggressive unionism of this type, in which Mr. Cole himself evidently feels a keener interest, has latterly become prevalent, the summary statement which he makes that a very small number "of effective combinations" now "includes a very large proportion" of the "total membership" of Trade Unions has a meaning which can be variously interpreted; and there is still, as he also says, a large class of societies, consisting almost of single branches, scattered up and down the country.

Nor have we yet finished the tale of conflicting interests and cross-divisions which is told by Mr. Cole. As trade councils, which have also latterly been growing in number and in influence, cut across the "craft" or the "industrial" unions, so federations and amalgamations are constituted on different principles in different cases, and do not take, or keep, a distinct, definite place on clear-cut lines of separation. The constituent units retain or surrender, in varying measure, their autonomy; and on the central organisation their dependence becomes accordingly more or less pronounced. The national bodies of the Trade Union Congress, represented by its Parliamentary Committee, and the Labour Party, with its Executive Committee, forming together a Joint Board, co-exist with the General Federation of Trade Unions; and they furnish, so Mr. Cole bitterly declares, "no very strong or effective nucleus" for Trade Union combination, while, internationally regarded, he despairingly proclaims, the British Trade Unions "play no outstanding part," but are properly considered to be "somewhat insular in their outlook." And, when he passes from their "structure" to their "government," he exhibits similar differences in division of the power. That may be variously shared between the local branches and the head offices, sometimes directly linked together and at others communicating indirectly through some intervening medium or media. It can be distributed in one way or another between the General Secretary and the Central Executive, sometimes consisting of full-time paid officials and sometimes otherwise composed; or we may find also district committees and conferences of delegates invested

with varying amounts of authoritative control. The National Union of Railwaymen, the Amalgamated Society of Engineers, and the Miners' Federation afford illustrative types of such differing arrangements. The law, Mr. Cole urges, may hitherto have hindered amalgamation, but financial difficulties and difficulties connected with the position and the choice of officials have also contributed their quota to delay or prevent the movement he approves; and he considers, as we have seen, the increasing prominence and the growing assertiveness of shop-stewards to be more welcome significant indications of the desired trend. They have no idea of exercising limited or subordinate functions alone, and will rather be the chief instruments in establishing a control of work which must issue at last in the displacement of capitalistic management by "democratic" industry. That is his sanguine hope and his strong belief for the future; but his graphic portraiture of present facts makes us pause before we can accept his bold prediction, or be moved by his sweeping theory. For division rather than unity, conflicting rather than co-ordinating principles, "sectionalism" and "overlapping," mark the actual practice of Trade Unions.

Let us look, finally, into his thorough analysis of wage-payment by results, on which the powerful illumination shed by him, unconsciously it may be, confirms the decision we have reached. In connection with the opinion and the conduct of trade unions Mr. Cole has put beyond dispute their willingness to adopt, or acquiesce in, payment by results where the unit of production can be readily and definitely measured; and this, he shows, is noticeably the case with the "repetition" work brought on so enlarged a scale by the exigencies of the war. A further condition recognised and urged by the unions is the possibility of "collective bargaining" in the settlement of piece-lists and the like. Trade Unions, he argues conclusively, are fundamentally concerned with the establishment and the maintenance of "standard" rates. Their rules and regulations cannot be fairly cited as enjoining expressly, or even as implicitly recommending, or countenancing, the practice, reprobated by their critics, both friendly and hostile, of "ca' canny." But they do, in fact, with reason, strenuously object to "price-cutting," or "speeding up," and they endeavour frankly to limit strictly, or prohibit altogether, these injurious acts. And, as the privilege given to them by the Trades Disputes Act of legal exemption from the consequences of certain "torts" is represented by him in the first of the two books as a compensating corrective for

legal disability in the matter of amalgamation, so in the second their attitude to the unregulated introduction of fresh machinery, to the unfettered use of improved methods of organising work, or to the "dilution" of a body of skilled workers by the larger admixture of unskilled labour of lower ability or shorter training, or of a weaker sex, is explained and justified by their previous experience of the probable action under such promising circumstances of employers, or their foremen, anxious to secure the services of labour at rates or costs below the standards formerly established.

Mr. Cole's review of the *pros* and *cons* of piecework, from the standpoints of employers and employed and of the public, is "full and fair," and his scrutiny of scientific management generally, and of its particular favoured expedient, the "premium bonus system" in its various forms, if severe, is not, as we have said before, unjustified. That efficiency may be found to impair freedom; that an arrangement is not recommended if it is so highly complicated that it becomes unintelligible to the ordinary workman; that, appealing powerfully to individuals as a stimulus to additional exertion, such a mode of remuneration cuts across and weakens the sense of the solidarity of Labour as a class; and that it renders more impassable the gulf opened between the position of the worker and the acquisition of control over the management, are considerations duly emphasised. They demand attention, if they may seem to other critics to have varying degrees of force, and these may be reluctant to accept the further contention, strongly urged by Mr. Cole, that the chance of unemployment is thereby increased. Nor are we disposed here to dispute the pertinence of his unfavourable remarks on profit-sharing, which possess less novelty than those directed against scientific management. But the general impression conveyed to our own mind by his whole discussion of wage problems is the variety and, we would add, the elasticity of the wages system. For to individual payment by results, in the many forms so carefully distinguished here, Mr. Cole adds rightly different kinds of collective payment, some of which deserve approval, while others are not improperly visited with his disapprobation. It is surely a hard belief, difficult to admit without reserve, that with this wonderful adaptability to differing circumstances the system should be doomed to disappear, and that during its continuance the receivers of such varying payments on such diverse principles should be submitting, one and all, subserviently to a degrading slavery, however "gilded" be their "chains."

We cannot but think that this improbable consequence could only have been reached through that "de-personified abstraction" from the actual facts of industrial life which Mr. Cole scornfully rejects in the opening paragraphs of his third book. And yet it is the self-same writer who furnishes the instructive and elaborate accounts of the many sorts of Trade Unions, with their actual conflicts and their potential strife, and of the host of present and possible modes of paying wages by results, to say nothing of other methods of remuneration, and who welcomes with frank delight as a universal circumstance of to-day the "class-struggle," though it be not, as some suppose, "red revolution," but may, on the contrary, he reassures us, appear as "orderly as a prayer-meeting." Still it is to be pushed remorselessly by all workers in common, desirous of emancipation from their "servile state," to eventual triumph over their tyrannical oppressors in the persons of capitalist-employers. Can this paradox be satisfactorily interpreted? Can it be rationally understood? Is it justified? We at any rate prefer, if we must make our choice, to belong to those who, "professing to believe" that "after the war" we shall put "sordid antagonisms" behind us, are, according to Mr. Cole's grim humour, "either too good for this world or too bad for the next"; for we should not like to be reduced to the gloomy alternative of arguing sombrely with him that "beneath the unity of every one of the contending Commonwealths" in the recent glorious fight for ordered freedom and civilised progress against barbarian autocracy "is the smouldering reality of the class-struggle." We see no historical or logical necessity for this sour moral, nor have these three books supplied us with convincing proof that it is apposite.

L. L. PRICE

THE CHARTIST MOVEMENT.

The Chartist Movement. By the late MARK HOVELL, M.A. Edited and completed with a memoir by Professor TOUT. (Manchester University Press, 1918. Pp. xxxvii + 327. *7s. 6d.* net.)

The Chartist Movement in its Social and Economic Aspects. By FRANK F. ROSENBLATT, Ph.D. Part I. (Pp. 248. $2.)

The Decline of the Chartist Movement. By PRESTON WILLIAM SLOSSON, Ph.D. (Pp. 216. $2.)

Chartism and the Churches: A Study in Democracy. By HAROLD UNDERWOOD FAULKNER, Ph.D. (Pp. 152. $1.50.)

Being Nos. 171, 172, and 173 of the "Studies in History, Economics, and Public Law" issued by the Faculty of Political Science of Columbia University. (Agents: Longmans. 1916.)

WE are experiencing quite a literary eruption on the subject of the Chartist movement. First came in 1913 M. Dolléan's work on "Le Chartisme," then followed Dr. Schlüter's book, "Die Chartistenbewegung," 1916; we have the three American authors mentioned above dealing with various aspects of the Chartist movement, and we are further told in the preface to Mr. Hovell's book that Mr. Julian West, who helped to bring out the book after the author's death, has a completed volume on the subject in manuscript, the publication of which is only delayed by the war.

All the four authors have largely consulted the mass of memoranda and pamphlets collected by Francis Place, who pasted into some hundreds of volumes extracts relating to all aspects of the social history of his time, covering roughly the period from 1790 to 1850. The British Museum has the larger part of this invaluable collection, which is known as the Place Collection; but Professor Seligman has acquired part of these documents for his library in New York, and it is from this source that the American writers have largely drawn, while Mr. Hovell has used the British Museum collection, and has produced the first book on the subject published by an Englishman since Gammage wrote in 1854.

Mr. Hovell was a lecturer on military history in Victoria University, Manchester. He was killed in France in August, 1916, when trying to rescue one of his men from the fumes of a mine explosion. The book was finished and brought out by Professor Tout, who has written the final chapter of 52 pages, dealing with the decline of Chartism after 1842. The concluding section of this chapter, on "The Place of Chartism in History," is one of the most valuable things in the book.

It is difficult to understand at first why a movement which was such a fiasco should have attracted so much attention in recent times. Chartism was an outburst of Radicalism caused by the disappointment of the working classes with the results of the Reform Bill. They had, so it seemed, only exchanged the domination of the upper class for that of the middle class. The Charter of 1838 was intended to secure political power to the lower class, and that was the aim of the famous six points—universal suffrage, annual

Parliaments, equal electoral districts, removal of property qualification, the ballot and the payment of members. When these political objects were attained the working class, so it was thought, would be in power, and would be in a position to put an end to the economic distress which was specially acute at the end of the 'thirties, and which had its origin in the after-effects of the French wars and the changes in industrial mechanism. The whole movement on its economic side gained point from the bitter opposition felt for the new Poor Law of 1834, which the manual worker considered had deprived him unjustly of his "bread money" or allowances, and offered him the *bastilles*, or new workhouses, in its place.

While the six points of the Charter and other parts of their programme have been largely realised with the exception of annual parliaments and perfect equality in electoral districts, the credit cannot be claimed by the Chartists. They only retarded the progress of democracy. As Professor Tout says, "not a single article of Chartist policy had the remotest chance of becoming law until the movement had expired" (p. 302). Nor were they more successful on the social side. They had no constructive programme, and could not make up their minds as a whole whether they wanted to go backwards or forwards. They were not agreed as to whether the movement was to be strictly constitutional or whether it should rely on force. They had no distinguished leaders or great personalities. They meant, if successful, to repeal the Poor Law and establish a ten-hour day, but such were "the contradictory tendencies within their ranks that Chartists could agree in little save negations. . . . When a more positive remedy was sought, the divergent schools parted company" (p. 307). "The utter inexperience of the Chartist leaders in the give and take of practical affairs, their abhorrence of compromise, the doctrinaire insistence on each man's particular shibboleth still further accounted for their impotence in action."

The real interest of the Chartist movement lies in the fact that it was one of the many sides of the general social unrest and attempted social amelioration of the second quarter of the nineteenth century. In France there were St. Simon, Fourier, and other Utopians advocating a total reconstruction of society, and preparing ultimately for the French Revolution of 1848. The beginnings of Marxian Socialism, which Professor Tout considers owes a great deal to the Chartists, are to be found in this period. In England in the 'thirties Owen was proclaiming revolutionary doctrines, and was helping to combine all

the workers in a single vast organisation to control all industry, and his efforts found expression in the Trades Union movement of 1834. Co-operative undertakings were springing up, free trade had its devoted adherents even among the working classes, though it was really a middle-class movement financed by manufacturers. Benthamite Liberals were reforming the municipalities and were trying to sweep away all the shackles which hindered a man from seeking freely his own welfare. The Tory reformers under Lord Ashley were obtaining increasingly effective Factory Acts, and beginning in the 'thirties with children they went on in the 'forties to include women, and passed from regulating textiles to mines, thus showing that they intended to fight all industrial and social evils, and not merely the new factory system.

Trade unionism of the now well known type of the great national amalgamated societies began to emerge after the failure of the revolutionary movement engineered by Owen; a successful turn was given to the co-operative movement by the Rochdale pioneers; the finance of the country was put on a new basis by the income tax; railways were developing rapidly and were creating a revolution in commercial methods as well as greatly increased opportunities for employment; banking was reformed; the Corn Laws and other tariffs were for the most part swept away; and England was preparing in her great iron works to equip the world with economic tools. She was also preparing to teach it how to live in towns by the sanitary reforms which Chadwick was initiating. Factory inspectors and main drainage have been the two great English inventions of the nineteenth century. The 'thirties and 'forties were years of tremendous constructive achievement, both social and economic, by all classes. In that period Chartism, which occupied the stage in the years 1837–1842, alone seemed to be a failure, and that failure largely explains the fact why we did not have a revolution in England in 1848, when every other important country of Europe, except Sweden and Russia, had revolutionary outbreaks. This alone would make the movement of importance to historians. With the great interest taken to-day in all labour movements there has been a revival of interest in the Chartist movement because it was "the first movement of modern times that was engineered and controlled by working men," and although they learnt far more from and accomplished far more through trade unionism and co-operation, Chartism had an educational value, and as such has its place in the history of the labour movement.

It is a mistake, however, to treat the Chartist movement as a

thing apart; that is why books on the movement seem so ill-balanced. It is only one of the many sides of the labour movement of its day, and only one aspect of the efforts of the great Victorians in the direction of industrial betterment.

Mr. Hovell has two very useful chapters on the Industrial Revolution and the rise of anti-capitalist economics and social revolutionary theory, and his detailed account of the whole movement up to 1842 will be indispensable to anyone who wishes to write the social history of the first half of the nineteenth century, and to fit all the diverse religious, political, educational, and economic movements of that period into one mosaic with a definite pattern.

Dr. Rosenblatt is principally concerned with the economic conditions which called forth the Chartist movement, and does not take the movement beyond the Newport Riot. His book is an industrious, unilluminating chronicle of events up to the middle of 1840.

Dr. Slosson deals with the decline of the Chartist movement from 1841 to 1853. He sets out to examine "why a popular movement, so generally supported by the unenfranchised classes of Great Britain as was the Chartist agitation, should have been abandoned without attaining the programme of reforms to which it was pledged." He considers Chartism was a class conscious movement which failed owing to the general improvement in economic conditions, which removed the main economic grievances of the working classes, after which the political claims had little or no vitality. "The root difficulty was that the aims of the party were really economic rather than political, while its programme was purely political" (p. 148). He, however, recognises the difficulty of accomplishing anything constructive when the leaders had such divergent aims. "To William Lovett the Charter was but one element in a general programme of social amelioration by voluntary effort and popular education. To Feargus O'Connor it was the political counterpart of a new peasantry re-established on the land stolen from their forefathers, and removed for ever from the factory towns. To the Reverend Joseph Stephens, to John Frost, and many of the other early leaders Chartism meant the repeal of the New Poor Law. To J. Brontine O'Brien it meant currency reform and the nationalisation of land rents. To Ernest Jones Chartism was proletarian Socialism. . . . Each of the leaders of the Chartist Party had his views of the ultimate aims to which the Charter was a means, and urged them in season and out" (p. 147).

Dr. Slosson has made a valuable contribution to the social history of the period with which he deals.

Dr. Faulkner deals with the Chartist movement from a quite original standpoint, viz., from its connection with the religious movements of the time. He aims at examining the attitude of the various religious bodies towards the new democracy and the religious currents operating within the movement itself. Hence his four chapters are concerned with the attitude of Chartism towards the Church, the Chartist substitutes for Christianity, and the attitude of the Church of England, the Wesleyans, and the Nonconformist bodies towards what he regards as "the first distinctly proletariat agitation of modern times," and his verdict is that "organised Christianity deliberately refused the leadership in political and social reformation, and the burden was taken up by the proletariat" (p. 120). This view seems hardly fair to Lord Ashley and his following, or to Owen, Chadwick, Bright, Cobden, and others, nor does it account for the fact that the Chartist agitation disappeared before the reforms carried out under middle-class rule, as Dr. Slosson has shown above. The examination of this side of the movement is, however, very interesting, as it brings out the interaction of religion and economic conditions which is beginning to be realised more and more for earlier periods.

L. KNOWLES

THE NATIONAL INCOME.

The Division of the Product of Industry: An Analysis of National Income before the War. By ARTHUR L. BOWLEY. (Oxford University Press. 1919. Pp. 60. 2*s.* 6*d.* net.)

No reader of the JOURNAL with any serious interest in the distribution of income is likely not to have read Professor Bowley's masterly contribution to the subject by this time, so that I need not waste space in summarising his conclusions, which appear to be eminently sound, though they have excited some indignation in minds of undue optimism which find the atmosphere under his wet blanket somewhat suffocating.

It seems more useful to attempt to pave the way, or at least to throw down some road-making material, for a consideration of the amount and distribution of the product of industry during the war. Unless statisticians and economists will give some

time and energy to this subject, it seems probable that during the years of lassitude and painful recovery following the war the question will often be asked and left unanswered, "Why were we so much better off during the war?" Continued failure to answer will involve great dangers. The bourgeois economist, intent on winning the war, laughed when his charwoman said: "This war has made many a happy home." Will he laugh when the charwoman's son, experienced in the art of fighting and hardened by familiarity with its horrors, says: "When I was in the trenches you gave me my pay and lots of bully-beef, and you gave mother an allowance: if you could do it then, you can do it now, so why should I work? Didn't Lloyd George promise me a happier England?" The question is not part of Professor Bowley's subject, and he does not deal with it except incidentally in a couple of sentences on p. 54. "The large income and lavish expenditure of 1918 were mainly due to the great inflation of prices, and partly due to borrowing from abroad and calling in capital. No one can reckon what the product of 1918 would have been worth at pre-war prices; the unit of value is unstable and unknown."

"The large income" is, of course, the large sum of money at which the aggregate incomes of all the inhabitants of, or, more strictly, all the persons domiciled in, the country are valued. Did this sum, which was, I suppose, between 50 and 100 per cent. more than the corresponding sum for 1913, represent a "product of industry" increased by as large a percentage? That Professor Bowley does not think so is implied by his saying that the largeness of the sum of money "was mainly due to the inflation of prices," and all reasonable persons will agree with him. But this seems to indicate that though "no one can reckon what the product of 1918 would have been worth at pre-war prices," yet we believe ourselves capable of comparing the magnitude of the product of 1918 with that of 1913, to this extent at any rate, that we are prepared to say that the product of 1918 was not as much greater than that of 1913 as the (money valuation) income of 1918 was greater than that of 1913. How do we measure? Not by applying index numbers of prices in 1913 and 1918 to the money valuation of income for the two years, because many people know nothing about index numbers of prices, and those who do would feel it hopeless to apply them, having regard to the enormous difference in the qualities and in the kinds of the articles constituting "the product." It is bad enough to find tough or over-salted bacon instead of the old article, and mar-

garine for butter, but worse when "tanks" are substituted for touring cars and aeroplane bombs for whisky. Confusion is rendered worse confounded when a particularly dangerous form of labour ceases to be bought from free men at the price it will fetch, but is obtained by compelling a large section of the people to serve at rates which would not, in fact, have tempted them. The differences are of the same kind as those which would prevent us from using the method of index numbers for comparing the magnitude of the product in the reign of William the Conqueror with that of 1900, even if we had the requisite prices. The fact seems to be that when prices and aggregate prices fail us, we form our estimates of magnitude of product from our knowledge of the amount of effort put forth and the various conditions regulating the productiveness of effort prevailing at the time. No one supposes that the product of industry of the Australian aborigines was large: asked why we believe it to have been small, most of us would be content to answer something to the effect that we know that their numbers were small, their industry not great, and their knowledge and instruments of a very low order, "so that they could not have produced much." The same answer would be given about the product of the people of this country in the time of William I., and we must follow the same line of thought in comparing 1918 with 1913.

About the aggregate of labour performed in this country, including that of the army abroad and of the sailors afloat, there is no doubt. The aggregate number of persons at work increased considerably, and of those who worked, some worked both harder and longer, some perhaps not quite so hard, but sufficiently longer to more than counterbalance the reduction of intensity of labour during the time worked. So we should expect an increase of product, if we had to think only of the amount of labour. But its productiveness also has to be taken into account. Did a given amount of labour effort produce more or less? First let us consider labour employed in producing the things ordinarily required for peaceful purposes. Here we may admit a certain gain arising from greater willingness and agility of mind among the workers who continued in ordinary industry, and also a certain gain arising from "increasing returns" in certain industries when the labour employed was simply reduced. We may be sure, for example, that a reduction of labour employed on a farm from ten to eight generally reduced the product by less than 20 per cent., even without any increase of personal efficiency, so that the productiveness of the eight men's labour

was increased. On the other hand, the substituted labour was generally much worse than the old; that of the women and boys was constantly inferior from want of muscular power, and that of old or unfit men who emerged from retirement or from idleness and professional unemployment was for the most part contemptible. Moreover, organisation was thrown into confusion by the war owing to interruption of communications with the outside world and all sorts of Government demands for men and things, besides interminable well-meant but hampering regulations. On the whole it seems likely that the productiveness of industry in procuring things of ordinary peace consumption diminished.

Secondly, we have to think of the war products. In this province no one can fail to recognise an enormous increase in the productiveness of labour if we measure it by quantity and quality of articles, such as shells and aeroplanes, and of services such as firing shells at given targets and curing wounds. And we must reckon it in that way. The labour did produce what it was immediately intended to produce, though the war itself was not productive, but destructive; if the war could have been avoided altogether by the exercise of common sense, that no more disproves the greater productivity of labour in making shells than the fact that rabies need not have been introduced into the country would disprove greater productivity in making dog muzzles.

The proportion of the aggregate labour employed in producing war products and the increase of productiveness in this province were both so large that we can scarcely avoid the conclusion that they must have outweighed the loss of productiveness in regard to peace products, so that in regard to all kinds of products taken together productiveness increased.

But if both the labour and the productiveness of labour increased, we cannot fail to admit that the product of 1918 must have been greater than that of 1913, so that the rise of (money valuation) income in 1918 does to some extent at least represent an increase of "real income" in the sense in which that term is most commonly understood.

It is very pleasant to have an addition of £50 to your income, but if the year in which the addition takes place happens unfortunately to be one in which you have to pay doctors and a nursing home £200, you are not better but worse off than in the year before. So in the great war, though the product and "real income" increased, the world in general was worse off. The

product was so largely of a non-enjoyable and even destructive kind. Instead of making things and doing things which gave comfort and pleasure to each other, people made things and did things as unpleasant as possible to their neighbours, and the increase was in these things.

That small sections of people should have been better off in spite of the general loss is not surprising. We are not even surprised if we find that on the whole the gain has been greater than the loss in some of the States which remained neutral for the whole or most of the time. But it is certainly surprising to find that a very large section of the people of one of the principal belligerent countries, the "working classes" of the United Kingdom, should be generally believed to have had "a very good time" in an economic sense (*e.g.*, not reckoning pain of wounds, grief for lost relatives and friends, fear of aircraft bombs, etc.). How can we explain it?

The goodness of the time is no doubt largely exaggerated by the ordinary apprehension. People are so used to regarding expenses as fixed that it is difficult for them not to think themselves better off with £2 a week than with £1, even if the £2 "goes no further" than the £1 did. Moreover, deterioration in quality is apt to be overlooked. Bread seems to be bread whatever it is made of, and when war underclothes do not keep out the cold we are apt to ascribe the fault to the weather. When a workman is suffocated in a railway carriage by the presence of fifteen others and takes double the old time on the journey, it does not strike him that he is paying the Government which takes his fare the same money for a less service. If his increase of income were all taken away in taxes of which he was conscious, he would still think he was better off, since now he could pay taxes and yet live as well as before. Moreover, no one supposes the "good time" to have been universal; here and there, at any rate, working people distinctly lost.

But when all allowances are made, it seems difficult to deny that the working classes in this country were as a whole somewhat better off than before the war. Anyone who is inclined to deny it will probably admit that they were not much worse off, which, in the circumstances, is only a little less surprising. Why, we may ask, were they not much worse off?

In the first place, in ordinary times the whole product is not, as Adam Smith erroneously supposed, consumed. A considerable part of it is said to be "saved." Most of this part consists of material equipment in the shape of additions to the stock of

houses, ships, factories, etc., within the country, and the rest of it consists of things which are sent abroad either to form sources of income themselves or to purchase sources of income for inhabitants of this country. Now during the war addition to material equipment at home and foreign property abroad wholly ceased. The labour thus set free was made available for war-production and for the production of immediately consumable peace-goods.

Secondly, in ordinary times a very large amount of labour is employed in maintaining the existing material equipment in good condition. This could not be dispensed with altogether—we were compelled to replace fallen slates on our roofs and broken rails on our lines of railways. But everyone knows that houses are in much worse condition than usual, and everyone conversant with business knows that renewals, if not repairs, have been very seriously postponed in almost all branches of production, and that stocks of everything have run down enormously. The labour which would in ordinary times have been keeping up the material equipment was diverted to war-production and the production of immediately consumable peace-goods, and its diversion helps to explain why the people were still able to obtain as much as they did of those peace-goods.

Thirdly, instead of sending some of its product abroad to bring in future income, the country took the opposite course of selling the property of inhabitants abroad and borrowing money abroad in order to secure the immediate import of consumable goods. Stocks and shares in the United States and elsewhere were exchanged for immediate bread for the people, and the bacon over which we grumbled was bought with money borrowed there—that is to say, *it has not yet been paid for*.

It was chiefly the tapping of these resources that enabled the country as a whole to get through the war with so little real privation. Further relief was obtained by a temporary reduction in the production of babies: as soon as the war had got into full swing, the separation of husbands and wives brought about its natural effect, and the absence of some three-quarters of a million very young children was a substantial help.

That none of these resources could be of a permanent character is too obvious to need insisting on. The Prodigal Son's father was able to kill the fatted calf because, in the absence of the wastrel, he had gone on producing and saving; he was not a community which could only say: "My son, I regret that there is no calf; we ate the last old cow a week ago. But I have

many Bradburies and War Bonds, and one match; let us at least warm our hands at a cheerful blaze."

I suppose that, in addition to thus "living on capital," the working classes were to some extent assisted by a certain redistribution of consumption in their favour. Rationing cut down the housekeeping expenses of the well-to-do, in spite of the increased cost of food, so that they must have eaten less or economised more, and this left more for the poorer classes. They left off buying clothes, and their abstention partly explains the magnificence of the girl munitioners. They replaced no worn furniture. Their domestic servants left them to assist in the production either of war-products or of peace-goods, which would not be entirely for the well-to-do. Altogether they consumed a great deal less than before the war, and the working classes derived benefit about the same in kind and degree as they do in ordinary times from a diversion of the income of the rich from expenditure on consumption to saving. What will be the end of it—whether the well-to-do in the future will themselves have to pay the whole of the interest on their war loans or will get some of it from the working classes—is as yet uncertain.

On the whole it seems likely that the redistribution of consumption was quite a small matter compared with the "living on capital." But I should like to see the question treated seriously in a statistical manner, if that is at all possible.

EDWIN CANNAN

REVIEWS

Money, Its Connexion with Rising and Falling Prices. By EDWIN CANNAN, M.A., LL.D., Professor of Political Economy in the University of London. (London: P. S. King. 1918. Pp. 66. 2*s*. 6*d*. net.)

ORIGINALLY intended as a supplementary chapter of the author's "Wealth," this little work grew under his hands, and became suitable for separate publication "with a title likely to make plain the application of its argument to present conditions." The writer aims at assisting the reader "to acquire some clear notion of what makes the value of money change." Professor Cannan has succeeded perfectly in this endeavour. The little book is a model of lucid exposition. In verification of this judgment we may refer to the felicitous illustration of index-numbers as used to measure variations in the level of general prices (p. 5). The parable is too long for insertion here, and its anecdotal charm would suffer by compression. Among the "clear notions" which are impressed with new force is the doctrine that, in J. S. Mill's words, "money is a commodity, and its value is determined like that of other commodities." Professor Cannan makes some advance on the classical theory when he argues that the law restricting the use of silver as legal tender beyond £2 and that of bronze beyond 1*s*. "has nothing to do with the value of the silver and bronze coins" (p. 32). A notable contribution to monetary theory is the proposition that when the coin is not convertible into free bullion, convertible notes may be issued in quantities as great as inconvertible notes, and with the same result.

"Convertibility of the note into coin is deprived of all its virtue when laws against melting and exportation of the coin are present and effective. Convertible notes can then be issued without check, just like inconvertible notes, and consequently can drag down the value of money below that of the bullion contents of the coin, and give rise to the same phenomenon—a rise of general prices, including the price of bullion" (p. 54).

Professor Cannan's modesty finds traces of this theorem in Ricardo, but we think that it is largely due to his own originality.

Considered as a clear restatement of first principles, with some novel deductions, the work leaves no room for improvement or criticism. But with reference to the avowed purpose of application to present conditions it might be well to advert to the wide distance which in political economy separates principle from practice. The application which the general reader will probably make is to the question whether "inflation" can be affirmed of present monetary conditions. He will understand the term in some such sense as Professor Pigou (ECONOMIC JOURNAL, 1917) has assisted us to define: say a rise of general prices due to inexpedient and culpable action on the part of Government with respect to the monetary and banking system. Now the culpability may be reduced by a circumstance which Professor Cannan has well described, namely, the depreciation of gold in consequence of its extrusion from monetary use in belligerent countries (p. 24). In view of this circumstance it seems probable that only a fraction of the rise in prices in any particular country, say our own, is due to the action of its Government. All the blame which may be deserved by Governments collectively must not be fastened on any particular Government. In matters of international rivalry, what is true in *composition*, as the logicians say, is not equally true in *division*. In further excuse for the Government's action may be noticed a point of theory which Professor Cannan, properly intent on the larger generalisations, has not emphasised. He well says:

"the value of a precious metal is dependent on just the same things as the value of any other metal" (p. 10); "the value of the metal is determined in the same way as that of other commodities by the same kinds of influences acting on demand and supply" (p. 25); "the value of money is not an anomalous or even very peculiar thing but depends in the same way as the value of other commodities upon the various influences which affect demand and supply" (p. 63).

It might have been well to add that, besides the generic resemblance between the value of metallic money and other commoditis, there is also a specific difference. There is the tendency of value to be inversely proportional to quantity; a tendency modified by changes in the "rapidity" with which money circulates, or goods change hands. Now a modification of this kind may be relevant to the present inquiry; if, for instance, we surmise with Professor Lehfeldt (ECONOMIC JOURNAL, 1918, p. 111) that the present rise of prices is partly due to a diminution in the frequency with which each piece of goods (including services) on an average changes hands. An estimate of the amount of currency which might be required to keep prices stable

(regard being had to the increased activity of industry and the monetary requirements of the Army) would be baffled by the change in rapidity. Yet another point of theory deserves notice in this connection. It is true enough for the purpose of an outline to affirm, with Professor Cannan, "we do not measure, and we do not want to measure, value in labour cost of production"; to deny that "value can and must properly be measured in labour cost of production instead of in commodities and services" (p. 57). But for some purposes, we submit, it is proper to define the change in the value of money by relation to difficulty of procuring it, rather than the amount of commodities and services which it will procure. We hold with Professor Marshall that there is a "*real*" value of gold measured by its power of purchasing, not commodities, but labour (Precious Metals Commission, 1887, Q. 9625). "A person who borrows a peck of green peas in April and returns two pecks in June . . . has not even returned the corpus of the loan" (Indian Currency Committee, 1899, Q. 11,765). A currency allowed to increase on the ground that labour was less productive—things more difficult of attainment in consequence of impediments to transport, dislocation of industry, and other incidents of war—might perhaps be described in a phrase stigmatised by Professor Cannan as "issued in response to a general demand." As well observed by Mr. William Shaw (*Quarterly Review*, January, 1919), "if prices rise and the volume of the currency media remain stationary, there will be a currency pinch or hunger." May we not add with Mr. Shaw, "with a restricted currency the immense credit operations of the present war could not have been safely carried through." If some rise of prices in sympathy with the dearth incident to war is proper, if the right mean is difficult even to define and still harder to realise, there is some defence for inclining towards that extreme which at least offers the advantage of obtaining necessary resources without delay or hitch. The economist in his study quite properly elaborates counsels of perfection; as Ricardo argued against the practice of borrowing to meet the expenses of war. But some allowance may be made for the statesman who, intent upon obtaining resources necessary for the preservation of his country, is tempted to act upon the maxim, "rem, si possis recte, si non quocunque modo rem." Professor Cannan's work is a valuable aid to the fulfilment of the *first* precept.

F. Y. EDGEWORTH

ΣΤΣΤΗΜΑ ΔΗΜΟΣΙΑΣ ΟΙΚΟΝΟΜΙΚΗΣ ΤΟΜΟΣ Α΄, ΜΕΡΟΣ Β΄. ΙΣΤΟΡΙΑ ΤΗΣ ΕΛΛΗΝΙΚΗΣ ΔΗΜΟΣΙΑΣ ΟΙΚΟΝΟΜΙΑΣ ΑΠΟ ΤΩΝ ΗΡΩΙΚΟΝ ΧΡΟΝΩΝ ΜΕΧΡΙ ΤΗΣ ΣΤΣΤΑΣΕΩΣ ΤΟΤ ΕΛΛΗΝΙΚΟΤ ΒΑΣΙΛΕΙΟΤ. ΤΠΟ ΑΝΔΡΕΟΤ ΜΙΧ. ΑΝΔΡΕΑΔΟΤ. Athens: 1918.

THE study of economic history has been aptly compared to the investigation of geologic fossils. The scrutiny of primitive forms throws light on recent developments, alike in biology and political economy. Indeed, the economic fossils are the more interesting, in so far as similar types are apt to recur. Of evolution in economic doctrine it is particularly true that

> "The course of time will swerve,
> Crook and turn upon itself in many a backward winding curve."

The mastodon and the icthyosaurus will not again appear on earth: but the prejudice against interest, the postulate that prices should be "just," and other ancient or mediæval dogmas seem continually to revive. Many are the parallels which Professor Andréades has drawn between the economic institutions of ancient Greece and those of modern Europe. Even in heroic times the duties of the people to their chief have some analogy with the burdens of the modern taxpayer. The obligation of military service sometimes took the form adopted in Belgium (before the war), according to which one member of a family was selected by lot to serve as a soldier. Exemption from what we should now call Conscription could sometimes then, as till recently in some countries, be obtained by purchase. The wealthy Echepolus, who procured abstention from the Trojan War by presenting a fine mare to Agamemnon, is the prototype of modern shirkers.

The archaic institutions of Sparta also afford interesting analogies. The curiosity which the manners of this wonderful people excite justifies Professor Andréades in digressing from his strictly economic theme into a wider survey of the Spartan polity. Of the historians who, from Xenophon to Grote, have extolled or disparaged the Spartan *régime* few have treated the subject with such freedom from partiality and prejudice as the modern Athenian. As regards the economic character of the people, there appears no reason to question the verdict of Aristotle, that the system had made the State impecunious and the citizens avaricious. The decline of population which proved the ruin of Sparta was due partly to the "positive check" imposed by war, but largely to what Malthus might have described as a "moral

check," the fear of bringing into the world children destined to be pauperised.

Outside Lacedæmon the rise of tyrants in many Greek cities claims the attention of the economic historian. Like the Medicis and the Napoleons, the ancient tyrants were expensive; they spent much on public buildings and on war. The ancient writers dwell at more length than modern parallels seem to require on the personal extravagance of the despots, and on their anxiety to keep the citizens occupied so as to deter them from hatching conspiracies.

Taking a general view of the fiscal systems prevalent among the Greek republics, Professor Andréades attributes serious consequences to their generally too narrow basis of taxation. Hence the pecuniary straits in which they were continually involved; hence the resort to expedients which violated the independence of the citizen and sacrificed the individual to the State.

These features are most distinctly seen in the economy of ancient Athens. There the consequences of Socialistic taxation are clearly exhibited. Of course, in pointing the moral for use at the present time we must bear in mind the so-called "relativity" of economic truth, or, rather, policy. A levy on property in a small city was less liable to be evaded than, say, the property tax in the United States. A curious difference between the working of a levy on capital in ancient as compared with modern times, results from the high rate of interest then prevalent. A large percentage of the capital could then be paid out of interest without trenching on the capital. Again, the burdens borne by the wealthier citizens had often the appearance at least of being undertaken voluntarily. Notwithstanding these points of contrast, we doubt not that in a comparison between the attacks on property prevalent in the Greek republics and those with which we are now threatened the similarities are more important than the differences. Our philosophic historian agrees with the wisest of the ancients that the exploitation of the propertied classes led to the impoverishment of the people as a whole. This is a true saying which Lycias puts into the mouth of a rich client: "By making me poor you will injure yourselves." But the desire for immediate gain and the passion for levelling down prevailed with the many. Our author appears right in attributing to this cause largely the downfall of the Athenian democracy—"the noblest of the peoples recorded in history."

The finances of the Byzantine Empire are next considered. But we shall not now enter on this subject, as it is not completed

in the present volume. We might have expected that the economy of Athens would be followed by that of the Macedonian Empire and the so-called Hellenistic period. But the author has seen fit to defer these portions of his history to a subsequent volume. It must be remembered that the present volume has the character of a fragment. It is, as set forth in the title, the second part of the first volume. Following high precedents, for instance that of Professor W. R. Scott—not to mention Homer—Professor Andréades hurries his reader *in medias res*. The justification of the order adopted will be apparent when the work is published as a whole. Along with that consummation a translation into one or more modern languages is promised. We trust that English will be one of those languages. Our literature will be greatly enriched by acquiring the work of one who combines in a remarkable degree the often dissociated qualities of economic insight and historical research. He not only arranges economic fossils and explains their significance; he also searches for and finds new specimens.

F. Y. EDGEWORTH

Works Committees and Joint Industrial Councils. A Report by A. B. WOLFE. United States Shipping Board Emergency Fleet Corporation Industrial Relations Division. (Philadelphia, January, 1919. Pp. 254.)

Arbitration and Wage-Fixing in Australia. Research Report No. 10, October, 1918. (National Industrial Conference Board, Boston, Mass. Pp. vii + 52.)

Unemployment and American Trade Unions. By D. P. SMELSER, Ph.D. Johns Hopkins University Studies in Historical and Political Science. Series XXXVII., No. 1. (Baltimore: The Johns Hopkins Press. 1919. Pp. 154. $1.25.)

IN the debate on the 1847 Factory Act Joseph Hume told the House of Commons "that any man who took upon himself to direct another in his ordinary affairs, told that other that he knew his affairs better than he himself did, and that he could manage them better. He held that the common sense of the working classes was capable of enabling them to take care of themselves." Up till the outbreak of the recent war this quotation might have at any time been given as typical of the common thought of the organisers of production. The "harmony" of capital and labour, the right of the individual factory-owner to "self-determination," the right of the employer to say what is to be produced and how

it is to be produced—it has seemed impossible to get beyond these ideas. The volcanic processes of the war have done much more than set crowns and thrones a-tumbling; men have been forced to think and to act on their thoughts. Where the thought has gone sour with age, like the queer mixture of Marxism and anarchism which forms the mental capital of the Bolshevist, the result is disaster; but fortunately there has been much fresh thought, and it is significant that most of it, from Guild Socialism to Whitley Councils, is directed towards the same end, the direct participation of the worker in the control of industry. The new element, the attention to the human factor, distinguishes the reformer of to-day from the collectivist of twenty or thirty years ago, even when both are willing to sign the same economic basis. One wonders what Joseph Hume would have thought of it all! There is to-day an almost universal admission that the existing system of private production in coal-mining has broken down, and the Sankey Commission is proceeding to consider schemes of nationalisation, of which one put forward by the Miners' Federation proposes that mining shall be controlled by a Mining Council composed as to half its membership of persons representing that Federation. Transport is to be put under the tutelage of the State, at least for a period of years. Central power stations are to be State-owned. How far is the process to continue? That is a question not to be answered here, nor can even an attempt be made to discuss the effects of joint management of industry on international competition. Our more modest purpose is to direct attention to the very remarkable report which forms the first of the books at the head of this notice. It is true that it is not "official" in the full sense of the term; the opinions are the opinions of the investigator alone, but it was prepared because the United States Shipping Board anticipated that the continuance of the war "would undoubtedly have been attended by serious strain in the relationships between employers and employed." Its real significance is that it should be published at all, and especially that it should be published in the United States.

The author's belief is that "a square deal and maximum efficiency are mutually cause and effect and inseparable." The function of the nineteenth century was the organisation of the purely physical productive forces, with the result that "labour became more and more a cog in a mighty and intricate machine." "Being in the nature of an engineering function—fitting things together—management, especially in our modern impersonal industrial organisation, has had a tendency to neglect the human element,

which neglect is about as disastrous as it would be for an engineer to forget to oil the bearings of his machine." With the beginning of the twentieth century came in "scientific management," but its practitioners regarded labour "practically in the same light as that in which they regarded their machinery and raw material, namely, as something to be shaped, manipulated, adjusted, put in its proper place, and left to perform its allotted task with automatic regularity and monotony." Now is the time, says the author, for a new system, that of "co-operative management," in which the human factor shall be recognised, the mental attitude of the worker understood. If this is revolution, the present system is "antagonistic management." "The man who thinks he is 'managing his own business without the interference of labour' and who thinks he is getting efficiency out of his plant even if his employees are restless and discontented, is probably labouring under an illusion; his workmen may be taking every opportunity to 'get even' and 'put one over on him' by all the semi-unconscious and intangible tricks and practices to which any aggrieved class or person will become habitually addicted." Mr. Wolfe analyses the worker's attitude psychologically and finds that their "instinct of self-expression is violated by the autocratic administration of industrial establishments." Workmen are not consulted about arrangements of plant or changes of process, not even about individual hirings or dismissals; "the worker does have a vested interest, in the psychological sense of the term, in his job," on which the life of his family depends. The inhibition of natural instincts inevitably leads to soreness, suspicion, and hostility, and the modern organisation of industry conflicts with the idea of modern democracy that "no class is to be regarded as the means to the interests of another class as end."

Such is Mr. Wolfe's diagnosis of the disease; his cure is "a machinery and a spirit in which all concerned shall have effective voice in matters which concern all." This does not mean joint control in everything. "Responsibility for the execution of policies and for the administration of technical detail must be left with the plant management. Determination of policies relating to the commercial end of the industry—purchase, sales, advertising, financial policy, etc.—must ordinarily be left to the responsible representatives of the owners of the plant." To the last section there may be exceptions, as when the Photo-Engravers' Union of New York drew up a new price list for their employers, which the latter accepted. There are left working conditions, wages, hours, and all matters affecting the interests of the employees to be the

subject of joint control. The suggestion of such control "does not come from the thin air of idealistic theorising," but from the very solid considerings of British business men. Mr. Wolfe describes minutely the proposals of the Whitley Committee and the attitude of the business world to them; they are now so familiar in the tripartite scheme of national councils, district councils, and works committees that we need not stop to detail them. He concludes that underneath them "rests the conviction that co-operative management and industrial solidarity are necessary to the development and maintenance of the highest degree of industrial efficiency, which will be necessary if England is to hold her own in *post-bellum* commercial competition." The full plan, however, seems to him to be too thorough for American conditions, since "it is necessary to remember that English industry is much more highly and effectively organised than is American, both on the side of labour and on that of employers." He concentrates, therefore, on works committees, either in the form of workmen's committees or of joint committees of labour and management. Into all the details of organisation we need not follow him, since, as he truly says, they must vary from industry to industry, from district to district, and even from works to works. Most instructive is his account of the various committees that have been set up in war industries both in Britain and in the United States. It is significant that in the latter country they have usually been imposed by the Government, and "undoubtedly," he says, "the works committee plan will encounter difficulties here greater than those in England. Employers' attitude is probably not so favourable here." How far the war committees instituted in the United States will continue in times of peace is doubtful, but the accomplishment of the Loyal Legion of Loggers and Lumbermen in establishing an eight-hours' day, in raising wages, in improving sanitation of camps and mills, in setting up welfare work, and in de-casualising labour is distinctly encouraging and cannot be altogether lost. Generally speaking, Mr. Wolfe wishes to build up on the basis of the shop stewards and in close alliance with the existing trade unions; the difficulties arising from the different ideals of craft and industrial unions do not escape him nor those attaching to the position of foremen. Instructed sympathy on the part of the management and the sense on both sides that they are engaged not in pursuit of their individual interests, but in a common service to the nation, are the principles on which he relies for the solution of all problems.

To draw a parallel from modern medicine, Mr. Wolfe seeks to keep the body healthy, the other two books on our list deal with the cure of existing disease. The National Industrial Conference Board, which issues the pamphlet on *Arbitration and Wage-Fixing in Australia* is "a co-operative body composed of representatives of national industrial associations, and organised to provide a clearing-house of information, a forum for constructive discussion, and machinery for co-operative action on matters that vitally affect the industrial development of the nation." Eighteen employers' associations—cotton, hardware, wool, boot and shoe, founders, etc.—are members. The wage boards of Victoria and the arbitration courts of New South Wales and the Commonwealth of Australia are familiar to students, but it is worth while noting the fact, well brought out in this new account, that while the former are based on conciliation and the latter on compulsion, each has achieved more success in proportion as it has amalgamated the apparently opposite principle. Neither plan has been undeviatingly successful in preventing strikes, but in New South Wales "the irresponsible character and temperament of the miners" is responsible for most of the disputes. The Commonwealth Act is of importance for the principles laid down by Mr. Justice Higgins—that competition is to be maintained, that the employer is to be "free to put the utmost pressure on anything and everything, except human life," that there must be a minimum living wage based on "the normal needs of the average employee, regarded as a human being living in a civilised community." The anonymous author pointedly remarks that "the Australian people accept a practical State Socialism. They are ready to endorse social ideals and give them legislative and economic expression." And again: "In Australia the principle of unionisation of labour is not merely passively accepted, but actually fostered, a situation radically different from that which obtains in the United States." One would imagine that he sympathised with Mr. Wolfe's ideas, and, indeed, his remarks have no little bearing on the possibility of the acceptance of co-operative management.

Dr. Smelser's monograph on *Unemployment and American Trade Unions* originated in an investigation which he carried out when a member of the Economic Seminary of the Johns Hopkins University. He analyses the statistics of unemployment, mostly non-existent and where existing dubious, except in the case of those kept by the Bricklayers', Masons', and Plasterers' Union, the Pattern Makers' Union, and the Flint Glass Workers' Union.

Next he discusses the trade union theory of unemployment, local union employment bureaux, union agencies for the distribution of workmen (travelling benefits), distribution of employment (short time, rotation of employment, dismissal in inverse order of seniority), and unemployment benefit and insurance. Much of his book reads like rather ancient British trade union history, especially in his account of the working of the trade union "lump of work" theory. On the basis that there is only a certain amount of work and that the more one man does the more someone else will suffer, it is easy to understand the policy of apprenticeship, of the closed trade, of restriction on output. Still, it is decidedly curious to find the Plumbers prohibiting their members from using bicycles and motor-cycles in working hours because "a plumber could cover twice as many jobs that way." "The Baltimore local union of Plumbers prohibits its members from telephoning to the employer when they are out jobbing to know if there are any more jobs in the neighbourhood." It is equally instructive to note that in seasonal trades the policy of restriction of membership tends to de-casualise labour by creating alternative employments; thus the Union of Elevator Constructors gives permits to ironworkers in busy times, so does the Union of Brewery Workers to employees in other seasonal trades, the Flint-Glass Workers' Union to machinists. After a few pages of Dr. Smelser one soon begins to think out fresh arguments for Mr. Wolfe.

HENRY W. MACROSTY

War Time Control of Industry: The Experience of England. By HOWARD L. GRAY, Professor of History in Bryn Mawr College. (New York: The Macmillan Co. 1918. Pp. xix + 307.)

FEW people, perhaps not even Mr. Harold Cox, will deny that in time of a great war it is necessary for a State to exercise control over national industry. Fewer still will agree as to the lessons to be drawn from that experience. Some will sturdily maintain that it only demonstrates afresh what an irate director called "the blighting influence of governmental control"; others with no less emphasis will demonstrate that concentration of the effort of whole trades in national interests was impossible until the "captains of industry" were brigaded and regimented through the cohesive influence of a few civil servants. There is a universal admission that the war disclosed an unexpected reserve of productive capacity, but here again opinions differ as to the relative

importance to be attached to the wholesale scrapping of antiquated machinery, to the elimination of wasteful competition, to the introduction of precautions against fatigue, to the cessation of trade union "practices." On one point only does everyone agree —that there is something to be learned. There must be abundance of information lying about somewhere. We have had controllers of this and directors of that without number, committees and commissions seem to have been tumbling over themselves, there has been every kind and every grade of control that could be imagined in some industry or other. This has given cause for amusement to the ignorant and foolish, material for gibes to the smeller-out of jobs and bureaucrats. In honest truth, what has happened is that for the first time the complexity of modern business has been made manifest to the public gaze, and the public has found little better to do than to jeer at the attempts to bring it into order and to direct it for the first time to public ends. It is earnestly to be hoped that the vast stores of information about British industry will be made public; the lessons of the costings system should not be allowed to perish with the Ministry of Munitions; before they fade away let the directors and controllers unburden themselves of their secrets, their successes, and their failures. The nation has conducted a marvellous experiment and has paid for it; it has the right to know all the results so that it may profit by them.

Pending the publication of this great body of material, reference may usefully be made to Professor Gray's book. It is not proposed to summarise it here; to do so would be to copy out his introduction of eight pages, it could not be done in less. In successive chapters he deals with the railways, munitions and labour, the coal mines, wool and woollens, hides and leather, shipping, food (sugar, meat, and bread), and agriculture, tracing under each heading the progress of Government interference and control up to the end of 1917. It is a pity that in the attainment of his object, the instruction of the American people, he had to write so soon, for by so doing he has missed the most interesting part of the history, the experiences of 1918. He has been unable to go into full detail—in particular an analysis of the financial history of the Ministry of Munitions would have been instructive —and there is much criticism that he either is unaware of or has passed over. Still his facts are generally accurate and such slips as have been noticed are of a trivial character. His comment is restrained and usually sound. In a final chapter he deals with British and American conditions. "England," he says, "since

the eighteenth century has been the classic land of *laissez faire*. Until recently her latter-day statesmen have done little to fetter the free play of competition in industry and commerce except where competition has been clearly detrimental to the welfare of her people." In the United States "tradition and sentiment" were "favourable to governmental regulation of industry," so that of the two one might expect the United States to be more disposed to control at the end of 1917, but that Great Britain by force of circumstances would take "more radical action." In American phrase this comparison is "quaint."

What one will really look forward to with interest, when all the facts are available, is an instructed criticism of the British methods of food control with the United States system of licensing wholesalers and retailers. The threat of the withdrawal of the licences if profiteering were proved seems to have been effective, at first at least, but the economic condition of the two countries as regards food supply is very different.

HENRY W. MACROSTY

The War Debt and How to Meet It. By J. E. ALLEN. (London: Methuen and Co. Pp. 147. Small 8vo. 5*s*. net.)

"THE aim of this little book is to trace the growth of the War Debt, to examine the real meaning of the Debt, and to discuss proposals for redeeming it." Unfortunately, a good aim does not ensure a good shot.

We are told that the first War Loan raised £332 millions. The terms of issue of the second and third Loans are given, but the amounts raised are not stated. The net amount borrowed for the war on November 30th last is given as £6,501 millions, but it is not stated how this is arrived at, and a guess is made that by April next the debt will be £8,000 millions. This is surely a very inadequate account of the "growth of the War Debt." Upon its "real meaning" we find no new light. As to redemption, a Capital Levy is dismissed as impracticable and unjust, and the author's own proposals are put forward for balancing the budget by raising some £500 millions a year from a recast Income Tax.

In grasp of his subject and closeness of reasoning Mr. Pethick Lawrence compares favourably with his critic, whose main point of attack is the assumption that the rich have grown richer during the war. From the last Income Tax returns and from the table

of 387 selected securities published in the *Bankers' Magazine* on October 18th last, Mr. Allen concludes that, allowing for the altered purchasing power of money, the rich have grown poorer. In this he may or may not be correct, but it cannot be proved by his method. Before we can draw trustworthy conclusions from the revenue figures we must have a more thorough understanding of the meaning and inwardness of the figures. In this respect the author has little confidence even in himself. He says: "I have tried to calculate what proportion of the national incomes falls to the various classes by taking the allowances on incomes between £300 and £700 a year. But the results thus obtained were so absurd that it seemed better to take some assumed figure for the total income and to divide it among various classes by guess-work." At another point he can make nothing of the Inland Revenue returns of gross income, taxable income, and abatements, etc., and says "one must infer that there has been a serious, perhaps an immense, leakage." Gratuitous inferences of this kind show the insecurity of his statistical footing.

Turning to the constructive proposals we find a "guess-work" division of the national income into six classes, of which the limits of income are respectively £75, £200, £500, £1,000, £3,000, and above £3,000. An attempt is made to show that a "virtual tax" of *nil*, 1*s*. 6*d*., 3*s*., 4*s*. 6*d*., 6*s*. 6*d*., and 8*s*. 6*d*. in the £ on these classes would yield over £480 millions. This result assumes that no abatements or allowances are made. If we abate £75 from the class £75–£200, a "virtual tax" of 3*s*. 6*d*. in the £ instead of 1*s*. 6*d*. would be required from this group to give the result predicted. An alternative method is suggested. "Or one might divide the national income into four quarters of £800 millions each, exempting Class I. and taxing the other three classes at 2*s*., 4*s*., and 6*s*. Here, again, no abatements are allowed. Mr. Allen's table puts half the national income into the group under £200 per annum, and he does not advert to the fact that these small people have also to pay indirect taxation and local rates. Schemes so manifestly unfair to the great majority of the electorate are of no practical assistance. How to adjust the Income Tax fairly, and with due regard to the existence of other public charges (a limitation constantly overlooked) is a complex riddle to be solved by less simple methods. The Royal Commission must do better than this.

HENRY HIGGS

The Taxation of Capital. By SIR ALFRED W. SOWARD, C.B., and W. E. WILLAN. (London: Waterlow and Sons, 1919. Pp. xvi+408. 8vo. Price 18*s*. 6*d*. net.)

THE authors of this volume must be added to the list of Inland Revenue officials, past and present, who have enriched our financial literature with expositions, historical, legal and statistical, of taxation in the United Kingdom. The title of the present work is too wide, and will disappoint those who look for a critical examination of such questions as the arguments for and against the taxation of capital and the methods adopted or suggested for taxing it. They confine themselves in effect to a history of our death duties with a chapter on capital wealth and a brief account of capital levies and of death duties outside the United Kingdom. The self-denying ordinance to write "nothing whatever . . . with the intention of influencing or supporting any particular line of political thought" limits the scope of the work, which is written from the standpoint of the lawyer and the official rather than from that of the economist. Within these limits the book will rank as a valuable source of reference upon the subject with which it deals.

HENRY HIGGS

I Fattori Demografici del Conflitto Europeo. By LANFRANCO MAROI. (Athenæum, Roma. 1919. Pp. 594.)

SIGNOR MAROI'S analysis of the demographic factors which in his view made the war inevitable is wonderfully complete, but he has only dealt with European countries. The vital statistics of the different nations and races are tabulated with the greatest care. German colonisation and commercial penetration are discussed country by country, and the ineffective attempts to denationalise Poland, Schleswig, and Alsace-Lorraine are described. The race problems of the Austro-Hungarian Empire receive full treatment. Dominian's *Frontiers of Language and Nationality in Europe* does not present such a comprehensive view of the subject. But the chapters devoted by him to Turkey in Asia and his excellent maps form a useful supplement to Maroi's work. The table of errata omits some notable mistakes, such as "Russia" for "Prussia" on page 208, "31·58" for "71·58" on page 445, and "Caucaso" for "Carpazii" on page 559.

The author's fears in connection with the infiltration of German elements into France and Switzerland seem exaggerated.

Considering geographical and other circumstances, it is hardly a matter for surprise or complaint that Germans have played a prominent part in the wonderful industrial development of Switzerland, while France possesses in a pre-eminent degree the quality which the greatest races have exhibited of absorbing alien elements. The penetration of Italy was much more serious, but, unfortunately, the matter is disposed of in two short pages. This is curious in view of Maroi's recognition of the fact that "Italy . . . nourished unconsciously an invisible enemy, which threatened its independence and poisoned the spirit and conscience of its citizens."

Maroi accepts Gini's views that the root cause of great wars is to be found in demographic factors, and applies it to the late war, as Gini remarks, "with prudent reserves." Immediate or "occasional" causes are to be distinguished from the ultimate or "primordial" one. The former only fire the train laid in the course of a long evolutionary process.

Gini has supplied an elaborate introductory note. He points out that Angell's thesis that war involves permanent loss to both victors and vanquished met with general acceptance. But he does not believe that the recognition of its truth will prevent future conflicts. The ostensible causes of the wars of successive ages—women, religion, dynastic aims, liberty, economic necessity —have changed with changes in men's ideals and prevailing interests. They have been put forward consciously or unconsciously to justify war in the eyes of the contending peoples, while the real determining factors have eluded notice.

Having ruled out such causes he proceeds to discuss general theories on the subject. He dismisses, for sufficient reasons, Novicow's argument that wars are really a matter of hereditary custom, and the related theory that natural selection favours the survival of combative races, and so perpetuates war. He admits a kernel of truth in the view that wars spring from inveterate antipathies aroused by physical and psychical race differences. These antipathies provide a *nidus* for the microbes of war. If they were themselves the microbes, a fresh war would break out as soon as the antipathetic peoples had recovered from the effect of the last one, and we should not find a nation engaged in deadly strife with another nearly akin to itself, and in alliance with others with which its natural ties are much less intimate.

The idea that wars are due to an upsetting of the balance of total population, or of total population and wealth, between different countries gives a demographic explanation, but does not

cover all cases. It was not increased pressure of population on the means of subsistence which induced Germany to assault its neighbours. To complete the theory Gini holds that account must likewise be taken of similar differences among social classes in a single nation or in two or more nations. He concludes that "armed conflicts between peoples or between social classes are due to the arousing and exacerbation of human combativeness in all or in some classes in face of the obstacles which the physical and psychical differences of the populations oppose to the tendency of the various social elements to distribute themselves conformably to their natural force of expansion."

Inside a nation the fact that the higher classes increase more slowly than the lower makes a current from below upwards essential for harmonious social evolution. If the current is dammed, the result is revolution. If the inhabitants of a nation as a whole, or particular classes in it, become redundant, they tend to penetrate other nations where similar conditions do not prevail. This penetration encounters "political barriers, economic antagonisms, linguistic differences, discordant ideals, all the obstacles which at bottom spring from race differences." In the end friction becomes so acute that war is inevitable.

A wise peace settlement should change the environment of a number of the demographic factors and render them for a time innocuous. But in the nature of things the new equilibrium will be unstable, and Gini probably regards the idea that war can be abolished as an idealist's dream.

The course of his argument seems designed to lead up to the general conclusion that the generating cause of war is always to be found in demographic factors. But he sees that this is inconsistent with historical fact, and guards himself by saying that "primary" wars spring from demographic factors, while "secondary" wars may be due to other causes. No definition of these two classes is given. But no doubt at the least "primary" wars are intended to include those great struggles occurring at long intervals which result in a complete readjustment of national forces. Nations, like individuals, become locked in deadly conflict when they are overmastered by passions such as fear, anger, greed, or that overweening self-esteem and contempt of the rights of others which the Greeks called ὕβρις. Demographic factors are not the only things that kindle to fever-heat these passions in nations or in individuals who direct the destiny of nations. It seems futile, therefore, to look for any single generating cause of war. In the case of struggles such as those of the Barbarians

with the decadent Roman Empire, in which the nations of modern Europe were born, demographic factors were all-important, and they played a great part in the production of those gadflies of passion which drove the German ruling class and the German people along a fatal path to a predestined end.

J. M. DOUIE

Man and Machine Power in War and Reconstruction. By CAPTAIN J. W. PETAVEL, R.E. (Retired). (Published by the University of Calcutta.)

THE volume contains five lectures delivered in Calcutta. The first four deal, with much repetition and in a somewhat disjointed fashion, with plans for industrial reform on co-operative lines, while the last contains Captain Petavel's ideas on the housing problem in towns. The assumption underlying all the proposals made is that, in consequence of the immense rise in productive power, it is a perfectly simple thing for people, working together in co-operative organisations and content to be paid mainly by receiving a share of the goods they themselves produce, to support themselves in comfort, and, if they wish to start later independent businesses of their own, to accumulate capital for the purpose. So far, the author says, the advance of productive power has only benefited the capitalist. "All it has done hitherto for us has been to multiply luxuries for a small class, while poverty has remained about as common as it ever was." A reformer should be careful to make his indictment square with facts if he wishes to obtain a hearing.

Notwithstanding his view as to the fruits of individualism, the author does not contemplate any sweeping measures for the socialisation of industry or anything in the nature of confiscation. He believes his proposed co-operative organisations will by direct and indirect action abolish unemployment and poverty, and by setting "the pace in the matter of remuneration" ensure that everybody, wherever employed, shall get good wages. The organisation is to consist of numerous agricultural and industrial colonies, in which children and disabled soldiers, unemployed workers, and workers dissatisfied with the conditions of employment in factories, will be trained and enabled to produce for themselves the principal necessaries of life. The boys will spend only half their time in industrial work, and education will become largely self-supporting. A scheme is sketched in which even the Army is to fall under the same category. Captain Petavel

pleads that at least a beginning should be made by starting numerous farm colonies for boys.

There is much vagueness about details, and no attempt is made to frame a balance-sheet. Admittedly some capital will be required, but apparently the people who advance it or who supply machinery are to be content to be paid by certificates entitling them to receive goods produced by the co-operative establishment. The expectation that they will do business on these terms seems highly optimistic. It is granted that a manager will be required, but his qualifications need not be high. The author thinks that "this is a kind of industry in which we can standardise the management and dispense with individual managing skill." The necessity of employing a proportion of skilled workmen drawing money wages is allowed. If income and expenditure did not balance, "people would be prepared to run [the establishments] at a loss at first for their enormous social and educational value." Philanthropy may support a farm school here and there, but it will not start hundreds and thousands of such institutions.

In the absence of any financial data we are referred to the success of one or more self-supporting Swiss establishments, in which vagrants are compelled to work. The establishment of "a considerable proportion of good paid workers" is necessary, for the labour of the tramps themselves "does not increase in value." It seems possible that many of Captain Petavel's voluntary recruits, who, he admits, will not at first be the most enterprising and capable workers, would not, in fact, earn their keep. His ideas of the saving to be effected by getting rid of "trade expenses" and middlemen's profits are probably extremely exaggerated, and it seems most unlikely that his schemes would work out in the way he expects or have the extraordinary effect on industrial conditions which he anticipates. Co-operative production on a large scale has not hitherto been a conspicuous success.

The last lecture is a sketch of a grandiose scheme of town reconstruction, which is to prevent unemployment on the return of men from the Army, and obviate any risk of its future recurrence. Apparently half the urban working-class dwellings in England would disappear. Towns would become lines of factories strung out along the railways with groups of artisans' houses built farther out in the country. Incidentally, half the agricultural land of England would enormously increase in value, because brought into immediate proximity to a town area. The

workers "might spend a short time in the factory (working in shifts), and part of their time cultivating a small plot of land to grow some of their own food." No confiscation of existing site values is contemplated. The unearned increment of the land, whose value would be enhanced, would not only compensate the landlords whose sites would be cleared of houses, but would provide large sums to build new dwellings. Admitting the physical and moral evils due to the vast agglomerations of houses of which many English towns consist, it is impossible to believe that any scheme of this sort is practicable.

It is hardly necessary to discuss a still more curious plan for a "national work department." It is not clear whether this is to be a public or a private organisation. Its success depends on the issue of cheques, called also paper currency, entitling its creditors and the workmen they employ to receive goods purchased by the organisation with these very cheques. Captain Petavel is sanguine enough to believe that manufacturers could employ this paper for the purchase of raw material and payment of freights.

J. M. DOUIE

Labour and Industry in Australia from the First Settlement in 1788 *to the Establishment of the Commonwealth in* 1901 By T. A. COGHLAN. 4 vols. (Oxford University Press. 1918.)

THE successive volumes of Coghlan's *Statistical Account of the Australian Colonies* have been, for some years, indispensable to students of Australian affairs. Their distinguished editor has now put the crown on his labours by producing a detailed economic history of Australia up to the birth of the Commonwealth. When we consider that the economic aspects of Australian history far transcend in interest and value the political, the importance of this work can hardly be exaggerated. Sir T. A. Coghlan has chosen the difficult, and perhaps thankless, task of dealing with the preliminary history of the six colonies, because he no doubt realises that conclusions from the experiences of the Commonwealth require for their successful handling the spadework furnished by such preliminary investigations. We all have met adepts of the "dismal science" who, by their general outlook upon life and letters, silence cheap critics; and Sir T. Coghlan shows by his comments on men and measures that he has wide and generous sympathies, and knows how to express his views

in a terse and vigorous fashion. There is, indeed, one criticism to which he exposes himself. It seems a pity that a work of such authority, consisting of four volumes and two thousand four hundred and fifty pages, should contain no references and hardly a note. "It is based," however, as its author tells us, "on official records, contemporary newspapers or other publications, and on information obtained direct from many persons who played a prominent part in Australian affairs from 1880 onwards. For the statistics I am my own authority, as also for the account of the banking crisis of 1893 and for some phases of the Labour movement."

The work is divided into seven parts. Part I. deals with the subject, "From the Foundation of Settlement to the Crossing of the Mountains"; Part II., with it, "From the Crossing of the Mountains to the Abolition of the Assignment System"; Part III., "From the Abolition of the Assignment System to the Discovery of Gold"; Part IV., "From the Discovery of Gold to the Introduction of Free Selection of Land before Survey"; Part V., "From the Introduction of Free Selection of Land before Survey to the Establishment of Protection in Victoria, and the Beginning of a Vigorous Policy of Public Works in all the Colonies"; Part VI., "From the Year 1873 to the Financial Crisis of 1893"; and Part VII., "From the Financial Crisis of 1893 to the Establishment of the Commonwealth."

It is well always to bear in mind the old adage about fools and angels; but there is one conclusion which he who runs may draw from the facts of Australian history. Again and again there is borne in upon us the sense of the folly of man and of the bounty of Nature. Good reasons could no doubt be furnished for the expediency of convict settlements, at any rate so far as the accomplishment of preparatory works is concerned; but the formidable undertaking of the New South Wales settlement was entered upon with a light heart and in a casual manner, without any attempt to form a clear idea of its ultimate goal. Ordinary naval officers were expected to deal with problems that would have taxed the powers of the best-trained administrators. In this topsy-turvy world even soldiers forgot the code of honour, and were found as traders, foisting rum as currency upon a convict community. Yet it was from one of these soldiers that came the first prospect of better days, when McArthur began the wool industry which was to revolutionise the country. But even the growth of the wool trade was not an unmixed blessing, because it opened the Pandora's box of troubles connected with the land

system, which to this day have never found a complete remedy. The problem was to give free play to the forces making for pastoral expansion, and yet not to close the door to agricultural development by means of small proprietors. At the time the squatting interest was all-powerful, politically as well as socially; and the efforts of Sir George Gipps, the Governor, and the Conservative Ministry at home to set on foot a system that should consider interests other than those of this section proved powerless, Lord Grey, on becoming Colonial Secretary, practically capitulating to its terms. Moreover, when in 1861 a serious attempt was made by John Robertson's Land Act to benefit the man of small means, and to bring about the introduction of a yeoman population, the measure was "singularly unsuccessful in promoting the *bonâ fide* settlement of small farmers, and initiated a struggle between the squatters and the selectors which grew in bitterness and intensity, while it brought no sufficient compensating benefits to the rest of the community." "Large freehold estates," we are told, "had been the exception before the passing of the Robertson Act. . . . After 1870 the bulk of the land sold . . . passed into the hands of the pastoralists, and the formation of large freehold estates was begun." In fact, the rapid alienation of the public estate to the pastoralists became a scandal; and legislation attempted to deal with it in 1875 and 1884. The aim of such legislation was to give persons of small means ready access to the land, to obtain an adequate return from the public domain, and to prevent the formation of large estates. Such legislation, however, was only partially successful; and the comparative success of South Australia in dealing with the problem would seem to show that the difficulties in New South Wales were largely caused by Nature.

It will be news to many to learn that a vigorous policy of public works, which became so characteristic of Australasian public men, was first preached in Australia by an English Governor, Sir Hercules Robinson. Both in New South Wales and Victoria, before the gold discoveries and for some time after, "public opinion was strongly in favour of confining the activities of the Governor and his Council to the sphere of government, properly so called. There was, after the final abolition of transportation, a revolution against all forms of governmental control, and this feeling continued for many years." It was necessity, not choice, that made the railways national undertakings.

But the lesson once learnt, the Australian colonies proved adepts in the game of public borrowing. "With the year 1881

the colonies of New South Wales, Victoria, Queensland, and South Australia entered upon a career of extravagant governmental expenditure, which was supplemented in New South Wales, and Queensland by the lavish introduction of capital on private account." Again, "in some of the colonies the Governments, simultaneously with the augmentation of their resources by borrowing, had a largely increased revenue, and this was also disposed of with a lavish hand." And, whilst such was the action of Governments, the attitude of the banks was still more dangerous. It is impossible to enter here into the details of Sir T. Coghlan's careful analysis of banking conditions, but we may note the fact that throughout Australia the practice of advancing money upon the security of land and of live-stock prevailed, and that the funds for this purpose were largely supplied by British deposits. Alongside of the banks were the Land Companies, which competed for English money in a more reckless fashion. At the beginning of 1889 the banks "had advances outstanding to the extent of 113 millions, much of which, perhaps the greater part, had been absorbed by pastoralists and speculators in city and suburban lands." But the former had been severely hit by droughts; and so "the banks found themselves in possession of a great many pastoral holdings which could not be disposed of except at prices much below the advances made against them." Of the latter, Sir T. Coghlan writes: "Many of these . . . began in fraud and remained fraudulent to the end." Given all these conditions, the financial *débâcle* of 1893 was, sooner or later, a foregone conclusion.

Since that time much has been amended; but it is significant that the appearance of a political Labour Party in Australia should have synchronised with the failure of the middle-class *régime* to solve the problems of the land and of capital. Sir T. Coghlan shows how close was, for many years, the affiliation of the Australian Trade Unions to the English unions. When the Australian workmen moved in the direction of Socialism, it was largely in response to influences such as *Looking Backward* and *Progress and Poverty;* though, apparently, a Queensland journalist, William Lane, who afterwards despaired of his country and started a "New Australia" in Paraguay, played no little part in directing the trend of Labour ideals. Be this as it may, it was no doubt the failure of the strikes of 1890 which was the immediate cause of a political Labour Party. "The unionists considered that they had not been beaten in fair fight." They had, indeed, been beaten; "but they were not annihilated, and

the leaders determined to use them in order to obtain political power, and to employ that power, when obtained, to prevent the forces of Government ever being used against them."

In the light of subsequent triumphs, it is curious to note the first efforts of political Labour. In New South Wales the issue was complicated by the cleavage between Free Traders and Protectionists; which was as deep in the ranks of Labour as of other classes. Labour dissensions in Parliament were only the echo of dissensions out of doors. In this state of things the main business of an adroit Ministry or Opposition was to exploit this want of unanimity for its own interests. On the other hand, Labour was able to bring pressure to bear, so as to have a guiding influence upon legislative measures.

In Victoria, perhaps because Radical measures had been more to the fore, the Labour Party was at first less powerful. Here, again, the question of the tariff cast its shadow, since strong Protectionists could not find salvation in the single-tax nostrum of Henry George. In the long struggle between the Council and the Assembly, Protection had been regarded as the democratic policy; and the interests of the workmen seemed too closely bound up with Protection for native industry to allow of doubts with regard to this fundamental dogma. "In fact, the Labour Party in Victoria, from 1892 to 1900, was not so much a separate and distinct party as the most advanced section of the Liberal Party." Contrasting the different ways in which the movement found expression in the various colonies, Sir T. Coghlan writes:—

"The interest of the Parliamentary Labour Movement in South Australia is in its atmosphere rather than in its idea or achievement, and the peculiar note of its conduct is, without question, compromise. In the case of New South Wales it was seen that the most conspicuous feature of the somewhat soulless task of its parliamentary organisation was its legislative success. . . . In Queensland we find an almost barren record of legislation, set off in the earlier years by a quite romantic and unique idealism, to which was added, subsequently, a certain quality of nervous vigour and tension, which contrasted picturesquely with the calculated bargaining in New South Wales and the dull commonplaceness in Victoria. The movement in South Australia resembled that of New South Wales in its record of ameliorative measures obtained, but its political and legislative success was associated with a widespread intellectual curiosity, and an altruistic enthusiasm that somewhat recalls the atmosphere temporarily created in Queensland by the prophet Lane."

An endeavour has been made to deal with some of the points in these closely packed volumes so far as they are concerned with the land system, development by means

of borrowing, and political Labour; but space forbids to give even a cursory account of the discussion of these subjects. There are, besides, great portions of these volumes on which nothing has been said. The subjects of immigration, wages, and prices receive exhaustive treatment regarding the different periods. Even "The Recrudescence of Bushranging" obtains its separate chapter. A living interest attaches to the chapters on "The Question of the Chinese" and "The Introduction of Coloured Labour into Queensland"; and the treatment of a "White Australia" is only disappointing because it fails to urge the lesson, "Be fruitful and multiply," as a corollary to the accepted Australian view on the subject. A concluding chapter on "The Federation of Australia" might have been omitted, as it covers ground adequately dealt with elsewhere.

In rising from the perusal of these weighty volumes written by a strong sympathiser with Australian democracy, wherein, assuredly, nothing is set down in malice, if no attempt is made to extenuate past blunders, the reader's last thought will perhaps be the good fortune that has attended the country at more than one crisis of its history. This may have helped to breed the optimism which seems indigenous to the soil and race. In the clear air and genial climate of Australia the answer of a self-confident and energetic race to the warnings of economic history will probably still be, even in times of stress, "*O passi graviora dabit deus his quoque finem!*"

H. E. EGERTON.

Women in the Engineering Trades. By BARBARA DRAKE. (Fabian Research Department and George Allen and Unwin. 1917. Pp. 143.)

MRS. DRAKE in this report, based on an inquiry by the Fabian Research Department and the Fabian Women's Group, has told part of a story of extraordinary interest in the history of industry and of wages in Great Britain. Although the incursion of women into the engineering trades had not by 1917 quite reached its highest point, yet most of the difficulties which accompanied it had emerged, and their analysis is perhaps of more pressing interest during the present ebb of the tide than it was a year ago.

After a useful description of the position of women in the metal trades before the war, the report contains an outline history of the processes of labour dilution in munition work, covering the

Treasury Agreement and the arrangements made by the A.S.E., with the neglect of the unskilled worker; the passing of the Munitions of War Act in 1915 and of its first amendment in January, 1916; and the successive women's wages orders issued under that Act. Then follow forty pages on the position of women in the trade, with a necessarily incomplete sketch of the problems of hours and conditions of work; and finally there come recommendations for the after-war period, with "minority reports" by successive members of the Committee of Inquiry: Mr. G. D. H. Cole, Mrs. Ewer, and Mr. Mellor; Mr. F. S. Button; Miss Macarthur and Miss Lawrence. This latter part is the most valuable. The difficulties of writing contemporary history are notorious, and the report gives a breathless impression true in many ways to the period, but not helpful to the reader. Further, the author sees and portrays with such vividness the worker's point of view and the deficiencies of employers and of departments in dealing with the problem of the woman munition maker, that she does not do justice to the equally "human" obstacles to the enforcement of any consistent policy in the constant though varied opposition from the skilled workman to dilution in all its forms.

The whole story is primarily one of wages; and, if an economic moral were needed, it might turn on the need for very much clearer thinking in the country as a whole about principles of payment, and for much more information about actual wages and earnings, than even the war period produced. If the country was to have munitions, it must dilute skilled labour with unskilled recruits, male and female; if the artisan's standard wage rates were to be protected, he must have safeguards for these rates stronger than those supplied by collective bargaining; if women on skilled or unskilled "men's work" were to have special protection, other women employed on munition work must in fairness and in the interests of output have protection for their standard of living. It was by these progressive stages, in the midst of intense pressure for output, and with little support either from pre-war organisation or from any consistent opinion among employers, employed, or the country at large, that the Government was committed to the interpretation of the two delusively simple shibboleths of "equal pay for equal work" and "a living wage" for the women on "men's" and on "women's" work respectively. Hence, in part, the difficulty of their application.

With regard to the establishment of a "living wage," the report insists strongly on the dilatoriness of its enforcement and

on its incomplete adjustment to changing prices. It does not enter into the production difficulty caused by a hasty introduction of a flat minimum (or standard) rate for "women's" work, but it draws a fair moral as to the influence of collective bargaining, as shown by the comparative attention paid to the claims of women on "men's" and on "women's" work respectively.

In discussing at greater length the Government's interpretation (described as "crude and disingenuous") of the principle of equal pay for equal work, the report makes detailed recommendations on the future position of the woman substitute. Thus a woman employed on men's work shall, it is urged, receive both the time rates or the piece rates "customarily paid for the job," unless the employer is able to show, to the satisfaction of the trade union or joint committee concerned, that one of the three following qualifying conditions is present. (1) That the woman needs training. The main report would allow a definite probationary period at less than standard rates; but Mr. Cole and his co-signatories in a minority report dissent, on the ground that the employer should bear the cost of training. (2) That "a re-adjustment has been made in the process of such a character as would customarily lead to the employment of a different class of labour." In this case of definite evolution in the industry a lower rate—that of the unskilled or semi-skilled man—is again suggested; although the woman taking the much-discussed "part or portion" of a skilled man's job, through the mere subdivision of processes, should be secured his full rate of pay. The minority reports again urge that any reduction should be subject to the "most careful watching" and to detailed collective bargaining. (3) "That in order to meet the separate needs of female labour a change or changes have been made in working conditions increasing the cost of production to the employer." In this case the only deduction recommended is that of the bare cost to the employer, with the maintenance of a minimum rate for women. Here, again, two of the minority reports urge strongly that no such reduction should be permitted, although Mr. Button (of the A.S.E. and the Committee on Production) grounds his opposition to the main report on "the favoured position it proposes for women."

The report brings out forcibly, despite its very apparent bias, the extreme difficulties, some genuine and some factitious, in the introduction of women into a highly organised and exclusive trade, and in the interpretation of "equal pay." It is worth reading for this alone, quite apart from its practical suggestions, and for the moral already deduced of the need for much better

thinking about wage problems than they receive from the normal citizen.

There is a good appendix by Mr. H. E. R. Highton on the position of dilution on the Clyde in August, 1916.

C. V. BUTLER

Scheme for a State Bonus. A Rational Method of Solving the Social Problem. By E. MABEL AND DENNIS MILNER, B.Sc., A.C.G.I. (State Bonus League, 1 Victoria Street, S.W.1. Pp. 16. Price 3*d*.)

THE authors of this pamphlet propound a scheme for an equal distribution of 5*s*. (pre-war) per head per week for all persons, to be provided from a pool maintained by everyone contributing 20 per cent. of their incomes. The demerits of such a proposal are too obvious to need enumeration.

But the psychology and ethics of the recognised economists need a fresh examination, and in many respects Mr. and Mrs. Milner's sociological views deserve careful attention. "The community should help all alike, not only those who have failed to help themselves." "No one should be driven by the threat of destitution into accepting work which is underpaid, unhealthy, or even dangerous. Therefore destitution must not exist." "The guarantee of the primal necessities of life will abolish the chief excuses there may be for begging, petty theft, the under-feeding of children, etc." "It will always give the fallen man a chance to rise." "Persuading people to work is an educational problem. Starvation must not be used as an educative force, for it only makes inefficient workers. Even the slave-owner gives his slaves food and shelter before applying the whip. Of the wisdom of maintaining people in health by proper nourishment before attempting to induce them to work there can be no question." "There is abundant evidence that those who live in want and the fear of want are cramped in their spiritual outlook, and the few who are virtuous would be so under any circumstances." "Our scheme makes men and women, rather than materials, the basis of Reconstruction."

C. E. COLLET

Co-operation for Farmers. By LIONEL SMITH-GORDON. (London: Williams and Norgate. Pp. 248. 6*s*. net.)

THE wheels of co-operative propaganda for British farmers certainly want greasing. The movement still drives "heavily,"

like the Egyptian chariots on their way across the bed of the Red Sea. And yet the hope of British farming in the future is admitted to lie in the adoption of organisation—which, of course, means co-operation. One may therefore be thankful that Mr. Smith-Gordon, who has a good record of services rendered to co-operation in Ireland under the command of Sir Horace Plunkett, has come forward to give our agricultural community a little good advice.

In speaking of Ireland and the happy results of agricultural co-operation there, Mr. Smith-Gordon is on firm ground, because he knows his subject well. Our author is also on tolerably solid ground where he deals with that gigantic form of co-operation—pure "dollar" co-operation as it is—into which he has gained some insight by personal observation in the United States. Only he sometimes appears to lose sight of the fact that Great Britain, with its smaller units of business, is not California or the Middle West. But when he comes to European countries—confining his observations mainly to Germany and Denmark—he goes a little astray on more points than one. One is disposed to rub one's eyes with wonder on reading that in Denmark agricultural co-operation has dispensed with credit, at a time when that country is all alive with hopes for the promising good results of a credit movement which, in the words of Mr. Hertel, an uncontested authority, bids fair to "sweep over the country, as the co-operative dairying system did a generation ago." And in respect of Germany our author has a tale to tell which does not altogether tally with facts. Evidently he has taken his cue from what has been officially published. But what is one-sidedly published is not in every instance gospel. Governments and those whom they befriend have the lion's share of publishing to themselves; and they are wont to make their phylacteries very broad, seeing results in a very different light from that in which they present themselves to unbiassed observers, and take credit for paternal solicitude for the governed when their true object was politics. Our own official scribes sent over to study things are in this respect no more above suspicion than other writers. For they invariably are addressed and go to official informants, who tell them, fully and truly, how the administration is done. That is like going to the cook for the recipe for the pudding, when, as we know, "the proof of the pudding is in the eating." The eaters, however, are rarely consulted. It is not correct that the undoubted improvement of German agriculture, of which Mr. Middleton has told us, was brought about by the largess which since 1895 German Govern-

ments have lavished upon landowners. No more is it correct to say, as Mr. Smith-Gordon does, that the Prussian Government changed its attitude towards co-operation. That type of co-operation which it persecuted in 1859 it has continued to persecute till Royalty ceased at Berlin. And that form of co-operation which is moulded on our Manchester system it has treated even worse. What it did in 1895 and after was to call a new form of co-operation into existence to redress the balance of the old —in other words, to purchase the political support of the Junkers, who, at their Jubilee "Co-operative" Congress, shouted lustily: "Down with John Bull and the Frenchman; we have William of Hohenzollern to send them to the right-about"—and call that "co-operation." Government support has put money into Junkers' pockets; but the main improvement of agriculture, of which Mr. Middleton has told us, took place before. To name but one further instance of inaccuracy, it was not the co-operative grain stores formed without Government aid which came to grief and the subsidised stores which rendered useful service, but all the other way. The five millions granted by Government soon came to an end in a truly ludicrous fashion. It was unsubsidised stores which earned for farmers just that "two shillings a quarter" for the sake of which Mr. Chamberlain considered it worth while to upset our fiscal system.

Mr. Smith-Gordon might well have gone a little farther afield for instructive examples. There is Switzerland; there is France; there is Belgium and Italy; there is that truly wonderful upgrowing of successful co-operation in emancipated Russia; and, above all things, there is India, which truly shames us by its remarkable results, obtained with assistance from the State which now amounts to only the absolutely trivial sum of 1.4 per cent. of the total working funds.

When all is said, however, Mr. Smith-Gordon's little book remains a good one, of practical value. It places facts before his readers in plain, intelligible English such as they will understand. One may therefore wish the book a good circulation among our farmers, who need such instruction as it gives.

HENRY W. WOLFF

New Fallacies of Midas. By CYRIL E. ROBINSON. (Headley Bros. 6*s*.)

THIS book is not written from the point of view of the professed economist. It represents rather an interpretation and a criticism of existing economic doctrine for the benefit of the

ordinary man. The writer stands himself in the midst of the crowd. He probably finds the economists dull company, and prefers to read the works of people who can write English: Ruskin and Morris, Belloc and Chesterton. The result is that he is hardly at close enough quarters with economic science to discharge his functions of interpreter quite adequately.

A book written with such an object cannot be expected to be very closely argued, but it might have been somewhat more vertebrate without becoming uncomfortably stiff. The theme is the problem of the organisation of society: Socialism, Syndicalism, Individualism, and the various compounds of these which are preached or practised. The author keeps the secret of his title till the last three pages. Not till then do we learn what the new fallacies of Midas are. They are two: first the belief in material wealth as an end, and secondly the belief in economic organisation as a short cut to the ideal. The dramatist is always warned to take his audience into his confidence from the beginning, and Mr. Robinson would have been well advised to disclose his secret at an earlier stage. The reader would see the bearing of the argument all the better if he knew from the beginning that it was leading up to the conclusion that the reform of the individual through education is the necessary and sufficient condition of the reform of society.

But this would not by itself have been enough to give form to what is more like a conversation than an argument. Much of the reasoning is well thought out and well expressed, but again and again it fades away instead of culminating in a logical step forward. And how can a discussion of Socialism be other than incomplete which never really grapples with the question of distribution? To treat the problem of distribution exclusively as one of justice is to accept the standards of the mob orator. The plea of justice is easily defeated. If justice demands equality, justice also prescribes respect for property. "The State, if it defies the moral law itself, will be cutting the ground from under its own feet" (p. 163).

To the scientific economist the case for Socialism rests on a more formidable argument. An increment of wealth is incomparably more precious to the poor than to the rich. Therefore inequality of distribution diminishes disastrously the aggregate utility of a given fund of wealth. It is possible to argue backwards and forwards, as Mr. Robinson does, about the advantages and disadvantages of State ownership and organisation, but we are never confident that we have adequately met this

one simple and fundamental argument, of which he seems scarcely to be aware.

The book is not confined to the controversial side of its subject. Much of it is rather in the nature of exposition. This is indeed the primary function of an interpreter. But the interpreter should not lightly part company from orthodox doctrine. When we find him contending that Ricardo's theory of rent "does not fit the facts," because "the competition of corn imported from abroad has not advanced rents in England, but kept them down," we feel that he is not a very trustworthy guide.

R. G. HAWTREY

NOTES AND MEMORANDA

Changes in the Export Industries of Ireland. (No. II.).[1]

In a previous paper (given in The Economic Journal dated June, 1918) I analysed the figures for the exports at Irish ports which have been published by the Department of Agriculture and Technical Instruction for Ireland for the twelve years 1904 to 1915 inclusive. In this present paper it is possible to include the figures for 1916 also.

The analysis given in this previous paper for each of the twelve years revealed extraordinary changes in the values exported. Ireland was there shown to have become mainly an industrial country so far as exports are concerned; it was the industrial exports that were increasing, while the exports of live stock were stationary or retrograding. This result of the investigation was so surprising that it invited further examination. It is obvious that when exports are measured by their money-values, the element of price-fluctuations can play a great disturbance of the figures. I propose in the present paper to eliminate this element of prices, and to obtain a measure of the quantities exported in a form which will allow comparison of year with year. If my measure of the quantities exported be accepted as correct, it will be easy to discern how far the remarkable changes in Irish exports during these thirteen years were caused by changes in prices and how far they were the expression of a real expansion in the volume of the trade itself.

I will consider only the four years 1904, 1908, 1913, and 1916. I omit 1912, because the Larkin Strike of that year held up the export trade of Dublin for three months; and I wanted to have 1913 because it was the last normal year before the war.

These tables need no commentary. But the surprising lift in all the figures as we pass into the war period makes the impression that inflated prices rather than expanding trade must be the chief cause of the great increase in the values exported.

[1] A paper read to the *Statistical and Social Inquiry Society of Ireland* on Friday, 14 February, 1919.

The problem presents itself, therefore, Can we obtain a measure of the volume of the trade free from the disturbance of price-changes: can we measure exports by *quantities* instead of by *values?*

TABLE I.—IRISH EXPORTS FOR FOUR DIFFERENT YEARS.
(*The figures are Estimated Values, sterling*).

Exporting Industry. (Order of 1913).	1904.	1908.	1913.	1916.
	£	£	£	£
I. Linen	9,026,890	10,167,234	16,572,208	19,804,702
II. Cattle	8,985,336	10,935,197	15,464,468	20,464,086
III. Bacon	2,205,657	3,249,170	4,430,061	7,069,095
IV. Poultry... ...	2,887,772	3,560,449	4,048,088	8,122,834
V. Butter	3,271,827	4,185,180	3,954,611	6,853,848
VI. Steamers ...	1,500,000	2,900,000	3,148,000	6,322,543
VII. Cotton Goods ...	1,320,802	1,468,947	2,722,350	3,503,851
VIII. Brewing ...	1,879,445	1,931,239	2,554,044	3,540,860
IX. Whiskey ...	2,343,496	2,299,964	2,008,500	4,272,578
X. Woollens ...	989,832	1,247,285	1,852,554	3,155,404
XI. Sheep	1,747,677	1,723,223	1,784,142	2,438,680
XII. Horses	1,291,165	1,347,225	1,703,260	596,480
XIII. Pigs	1,742,039	1,332,258	1,024,197	2,051,878
Total (above) ...	39,191,938	46,347,371	61,246,483	88,196,839
Other Exports ...	10,206,598	11,067,606	12,639,927	18,974,178
Total Exports ...	49,398,536	57,414,977	73,886,410	107,171,017

TABLE II.—PERCENTAGE GROWTH IN EXPORT VALUES.
(*Value exported in* 1904 = 100).

Exporting Industry. (Order of 1913).	1904.	1908.	1913.	1916.
I. Linen	100	112·6	183·5	196·8
II. Cattle	100	121·7	172·1	227·7
III. Bacon	100	147·3	209·0	324·9
IV. Poultry	100	123·3	140·1	281·3
V. Butter	100	124·8	120·9	209·4
VI. Steamers[1]...	100	132·5	162·7	276·1
VII. Cotton Goods	100	111·2	206·1	265·2
VIII. Brewing	100	102·8	135·9	188·4
IX. Whiskey	100	98·1	85·7	182·3
X. Woollens	100	126·0	187·1	318·7
XI. Sheep	100	98·6	102·0	139·5
XII. Horses	100	104·3	131·9	45·4
XIII. Pigs	100	76·4	58·8	117·8
Total Exports	100	116·2	149·5	216·9

[1] Steamers are here averages of two-year periods, 1904–05, 1907–08, 1912–13, 1915–16; so not as in previous tables.

The usual method of solving this problem would be as follows: The exports of any year, such as 1916, are to be recalculated according to the prices which existed at the base year 1904. If the total quantities exported in 1904 for each article of trade be divided into the total values of each such article in that year's exports, we get an averaged export price for each article, as in 1904. Take, then, the *quantities* (only) exported in any subsequent year 1916, multiply them by these averaged export prices for 1904, and we obtain the materials for measuring *what the exports of* 1916 *would have amounted to if valued at the prices of* 1904. If we did the same thing for 1908, 1913, and 1916, and arrayed the results in the form resembling Table II. above, then the figures would show the expansion of trade undistorted by mere price fluctuations.

In the case of British foreign trade this calculation is done for us every year by papers like the *Economist;* and it is a very necessary thing to do. The recalculation is rendered easier for British imports and exports, because those "averaged prices," both of exports and imports (*i.e.*, the results of dividing total values by total quantities) have been calculated for each article every year by the Board of Trade and are always put on record in the *Statistical Abstract for the United Kingdom*. So one merely takes from the *Statistical Abstract* the prices of the base year (say, 1904) and multiplies the *quantities* for the current year (say, 1916) by those base prices, and the calculation is quickly done.

This is the usual method by which exports are freed from price fluctuations. I have not been satisfied, however, to apply to Irish exports the "averaged prices" in the *Statistical Abstract* which were worked out from British exports. Consequently, I have tried another method, *using the principles of index-numbers* to obtain a measure of the *quantity* of our export trade, apart from the fluctuations of prices.

To illustrate the application of *index-numbers* to this problem, I will consider in detail the figures for the linen trade for the year 1916, as compared with the year 1904. The Department's returns supply the particulars of quantities and values for the four items that make up the exports of the linen trade, which are set out in Table III.

Here the figures in columns C and D can be added, and the totals at foot are the same figures as appeared already in Table I. for the "estimated values" of the linen exports for 1904 and 1916. But the *quantity* figures in columns A and B, being in

discrete units, cannot be added; our problem is to obtain an *index-number* that will measure each of those columns. Taking 1904 as the base with which other years will be compared, we

TABLE III.—EXPORTS OF IRISH LINEN INDUSTRY.

ITEM.[1]	QUANTITIES.		VALUES, £.	
	A. 1904.	B. 1916.	C. 1904.	D. 1916.
a. Flax (*tons*)	2,641	4,664	132,050	436,317
b. Linen Yarn (*lbs.*) ...	20,163,700	18,020,576	1,232,356	2,027,315
c. Linen Goods (*cwt.*)...	972,924	1,083,208	7,296,930	16,248,120
d. Thread (*lbs.*) ...	2,924,432	5,522,272	365,554	1,092,950
			9,026,890	19,804,702

represent each figure in column A by the number 100; and we calculate the proportional numbers which then represent the corresponding figures in column B. The result is Table IV.

TABLE IV.—PERCENTAGE CHANGE IN LINEN EXPORTS (*Quantities*).

	1904.	1916.
a. Flax (*tons*)	100	177
b. Linen Yarn (*lbs.*)	100	89
c. Linen Goods (*cwt.*)... ...	100	111
d. Thread (*lbs.*)	100	189

Now, the simple arithmetic mean of the index-numbers in the last column is 141·5: can we take it as a measure of the 1916 column? To do so would be to assume that the four items (a, b, c, and d) are of equal importance. But the money values of those items, shown by column D in Table III., are very unequal; and it so happens that the smaller items (a and d) show much larger percentage changes than the important items (b and c). I take these money values to be a correct measure of their relative importance. In place of a simple arithmetic average, therefore, we require to have a *weighted average* of the 1916 index-numbers of Table IV.—using as *weights* the figures shown in column D of Table III. This *weighted average* works out[2] at 114·5, which figure we take to be the index-number that

[1] A small doubtful item, "Waste (Flax, Tow, and Hemp)" is omitted.

[2] By the theory of index-numbers, the "weights" yield the same *weighted average* even if only relatively approximate. Now the four large figures in Column D of Table III. are relatively approximate to 4, 20, 162 and 10; and therefore to 2, 10, 81, and 5. We may now use these last figures as the

measures the *quantity* of the linen trade exports in the year 1916. The *quantities* exported by the linen industry had risen from 100 in 1904 to 114·5 in 1916; whereas (as we have shown in Table II.) the *values* exported by the linen industry had undergone the much greater rise from 100 in 1904 to 196·8 in 1916. The disparity between these results reveals the effects of mere price changes upon the estimated values of the exports, apart from the growth of the trade.

As we have now obtained an index-number (114·5) to measure the change in the *quantities* exported for the linen industry, so by the same process we can obtain a corresponding index-number for 1916 to measure the change in the *quantities* exported in the cattle industry, and each of the other principal export industries of Ireland. Only in the case of shipbuilding it cannot be done for the war-years 1915–6, for the tonnage output was not disclosed. As in Table II., the steamers are measured by the averaged output for the two-year periods 1904–5, 1907–8, 1912–3, and 1915–6, in order to distribute the tonnage of very large vessels whose construction had spread over two years. Moreover, what we can do for the year 1916 we can do in the same manner for other years. The results in Table V. were thus obtained.

TABLE V.—PERCENTAGE CHANGES IN QUANTITIES EXPORTED.

(Year 1904 = 100).

—	1904.	1908.	1913.	1916.
I. Linen	100	97·5	120	114·5
II. Cattle	100	111·8	148·3	142·9
III. Bacon	100	129·2	139·1	150·8
IV. Poultry	100	119·3	118	146·5
V. Butter	100	112·8	112·3	156·3
VI. Steamers	100	134·6	134·0	—
VII. Cotton Goods	100	98·8	130·1	124·8
VIII. Brewing	100	122·7	162·1	171·8
IX. Whiskey	100	93·9	85·8	45·6
X. Woollens	100	169·6	234·6	332·2
XI. Sheep	100	101·4	88·6	87·4
XII. Horses	100	104·3	131·9	25·9
XIII. Pigs	100	77·1	39·5	55·0
Average No. for Year	100	113·1	128·3	140·7

"weights," and the *weighted average* will be practically the same. It will be found to be 114·28; as compared with 114·56 when the large figures were used as "weights." In this manner the calculations are much simplified and shortened.

The view given in this table of the growth in volume of Irish exports is interesting from many points. The astonishing growth in the output of the woollen industry is unparalleled. But the brewing and bacon industries have also extended their exports to a remarkable degree for such a short period of time as twelve years. All the manufacturing industries, except whiskey, show steady progress. All the live stock trades are less healthy-looking. [N.B.—The cattle figure for 1913 is abnormal, because the Larkin Strike had stopped the Dublin trade for some three months of 1912.] The rise between 1913 and 1916 in nearly all items shows the emphatic demand for Irish products in war time, which had operated for horses previous to the outbreak of hostilities. The decline in pigs is nearly equivalent to the rise in bacon, which, if it be cause and effect, is a satisfactory feature.

It remains only to compare the *quantity* changes in Irish exports with the changes in *values* in order to see how the contemporaneous increase of prices has operated. This can best be seen in Table VI. which combines together the previous

TABLE VI.—PERCENTAGE CHANGES IN IRISH EXPORTS DURING THIRTEEN YEARS.

[Darker figures in brackets = Quantities; other figures = Values. Year 1904 = 100.]

(Order of 1913).	1904.	1908.	1913.	1916.
I. Linen ...	100 (**100**)	112·6 (**97·5**)	183·5 (**120**)	196·8 (**114·5**)
II. Cattle ...	100 (**100**)	121·7 (**111·8**)	172·1 (**148·3**)	227·7 (**142·9**)
III. Bacon ...	100 (**100**)	147·3 (**129·2**)	209·0 (**139·1**)	324·9 (**150·8**)
IV. Poultry ...	100 (**100**)	123·3 (**119·3**)	140·1 (**118**)	281·3 (**146·5**)
V. Butter ...	100 (**100**)	124·8 (**112·8**)	120·9 (**112·3**)	209·4 (**156·3**)
VI. Steamers[1] ...	100 (**100**)	132·5 (**134·6**)	62·7 (**134·0**)	276·1 (—)
VII. Cotton Goods	100 (**100**)	111·2 (**98·8**)	206·1 (**130·1**)	265·2 (**124·8**)
VIII. Brewing ...	100 (**100**)	102·8 (**122·7**)	135·9 (**162·1**)	188·4 (**171·8**)
IX. Whiskey ...	100 (**100**)	98·1 (**93·9**)	85·7 (**85·8**)	182·3 (**45·6**)
X. Woollens ...	100 (**100**)	126·0 (**169·6**)	187·1 (**234·6**)	318·7 (**332·2**)
XI. Sheep ...	100 (**100**)	98·6 (**101·4**)	102·0 (**88·6**)	139·5 (**87·1**)
XII. Horses ...	100 (**100**)	104·3 (**104·3**)	131·9 (**131·9**)	45·4 (**25·9**)
XIII. Pigs... ...	100 (**100**)	76·4 (**77·1**)	58·8 (**39·5**)	117·8 (**55·0**)
Total Value All Exports ...	£49,398,536	£57,414,977	£73,886,410	£107,171,017
Percentage of 1904 Values ...	100	116·2	149·5	216·9
Average Quantity Index No. ...	(**100**)	(**113·1**)	(**128·3**)	(**140·7**)

[1] Steamers are averages of two-year periods 1904–05, 1907–08, 1912–13, 1915–16.

Tables II. and V.—the darker figures enclosed in brackets representing quantities and the other figures representing values. This table may be let speak for itself. It tells a remarkable story for each of the thirteen principal exporting industries of Ireland. In regard to two of them, the woollens and the brewing, this table points to a peculiarity, viz.: the *quantity* figures are larger than the *value* figures, except in the year 1916. This seems to show that the products in these industries had experienced a fall of prices—until the war year 1916. In the case of horses it may be noticed that the *quantity* and *value* figures are alike, except in 1916. But in this case, probably, the Department has nothing but *quantity* figures to handle; the statistician had put an average price applicable to all horses of the same sort. If I may guess what he did, he seems to have valued every stallion at £250 all the time; and every mare and gelding was valued at £45 every year except the last, when for 1916 he raised this figure to £80. Of course, it was necessary to value them at some figure, in order that the total exports of Ireland might be aggregated in its money values. The difficulties under which the Department brings out its annual return of the trade in imports and exports at Irish ports, owing to the absence of legal powers to require adequate returns from traders and shippers, were dwelt on in my previous paper, and are, perhaps, not always appreciated by those who may make use of these very important statistics of Irish external trade.

C. H. OLDHAM

OFFICIAL PAPERS.

Wages and Conditions of Employment in Agriculture. Vol. I. General Report. [C. 24.] 1s. 9d.

THE general report, by Mr. Geoffrey Drage, deals with the agriculture of England and of Wales.

Vol. II. Reports of Investigators. [C. 25.] 4s.

REPORTS on 56 counties by 16 investigators, filling over 500 too closely printed pages.

Eightieth Annual Report of the Registrar-General of Births, Deaths, and Marriages in England and Wales (1917). [C. 40.]

THE marriage-rate in 1917, 13·8 per 1,000, was the lowest on record. So was the birth-rate, 17·8. The great excess of male births observed in 1917 has not been maintained. The death-rate showed little change.

Emigration Statistics of Ireland for the Year 1918. [C. 77.]

THE number of emigrants was 983, 1,131 less than for 1917—a "record."

Coal Industry Commission. Interim report by the HON. MR. JUSTICE SANKEY, MR. ARTHUR BALFOUR, and others. [C. 84.] Report by MESSRS. R. SMILLIE and others. [C. 85.] [C. 86.]

Report of the Women's Advisory Committee of the Ministry of Reconstruction on the Domestic Service Problem [C.67.] 3*d*.

Report of the War Cabinet Committee on Women in Industry. [C. 135.]

AFTER a survey of the employment of women before and during the war, the future employment of women and the future relations between their wages and those of men are considered. Mrs. Sidney Webb, in a minority report, differs from the majority, and recommends a new principle for the determination of women's wages.

Board of Trade Report on the Increased Employment of Women during the War in the United Kingdom. 9164. 2*d*.

Review of Trade of India, 1917–18. (No. 876.)

THE changes in the composition and direction of Indian trade are stated and illustrated by beautiful diagrams. The change in the *quantity* of exports and imports is distinguished from the change in their value, account being taken of the rise in prices, which was greater for imports than for exports.

Report of the Indian Industrial Commission, 1916–1918. [C. 51.] 4*s*. 6*d*.

Report of Committee of the Ministry of Reconstruction on the Building Industry after the War. 9197. 3*d*.

Manual on the Preparation of State-aided Housing Schemes. Issued by the Local Government Board. Plans and Illustrations 2*s*. 6*d*.

Report of Committee on the Financial Risks attaching to the Holding of Trading Stocks. 9224. 2*d*.

National Expenditure Committee, Session 1918. *Reports with Evidence and Index.* 2*s*. 6*d*.

FORM of Public Accounts; Early History of Parliamentary Grants and Accounts; Present Form of Estimates and Accounts; Defence of Existing Practice; Proposed New Forms.

Economic Conditions Prevailing in Germany, December, 1918, *to March*, 1919. *Reports by British Officers.* [C. 52.] 9*d*.

A Collection of Reports on Bolshevism in Russia. [C. 8.] 9*d*.

CURRENT TOPICS

MR. D. H. MACGREGOR has succeeded Mr. S. J. Chapman in the Stanley Jevons Chair of Political Economy at Manchester. Mr. Macgregor was previously Professor of Political Economy in the University of Leeds. His name is familiar to readers of THE ECONOMIC JOURNAL, as he has from time to time contributed to it original articles. One of these, on "Shipping Conferences," was read before a meeting of the Royal Economic Society in 1909.

Professor Macgregor's book on *Industrial Combination* was reviewed in 1907. More recently we have had occasion to mention that the Military Cross had been awarded to Lieutenant D. H. Macgregor "for gallantry and devotion to duty in action."

THE death of M. Kiaer, sometime Director of the Statistical Bureau of Norway, concerns economists as well as statisticians. For—not to speak of other investigations bearing on our subjects—Kiaer was prominent in advocating and practising a statistical method which is probably destined to be fruitful in economics, the method of random sampling. With what accuracy and advantage the method may be employed is shown by Dr. Bowley in his study on *Livelihood and Poverty* and elsewhere. "We have thereby acquired valuable information which it would probably have been impossible to obtain in any other way," Kiaer himself once wrote to us about the method of sampling.

THE University of the Punjab (of which the Headquarters are at Lahore) proposes to establish two Chairs, one of Economics, one of History, on salaries of £1,000 per annum each, with four months' vacation each summer, and passages paid on joining and leaving the appointments. It is proposed to fill the Chairs in the first instance by appointments made either for three or five years. It is not necessary that the Professors should already have made a speciality of Indian subjects. But it is hoped that both the Professors will engage in research work and interest students in enquiry into Indian History and Economics. It will be an important part of their work to organise Honours Schools in these two subjects and inter-Collegiate teaching of Honours Students. The precise amount of teaching which they will be asked to undertake is not determined. The general view is that they should be asked to deliver only a small number of lectures, but that they should also undertake personal tutorial work with Honours Students, such as the correction of their essays and the direction of their reading. All British subjects, whether of Indian or European birth, allies and neutrals, are eligible. For further information, application should be made to Mr. T. W. Arnold, C.I.E., India Office, London.

WE deeply regret to announce the death on June 10th, after a short illness, of the Venerable Archdeacon William Cunningham. An obituary notice of Dr. Cunningham will appear in the next issue of the JOURNAL.

RECENT PERIODICALS AND NEW BOOKS.

Journal of the Royal Statistical Society.

JANUARY, 1919. *Eugenics in Relation to Economics and Statistics.* MAJOR LEONARD DARWIN. *Notes on the Biology of a Life-Table.* JOHN BROWNLEE, M.D. An attempt to graduate a life-table by a formula expressing the action of general causes. *German and English War-Time Diets.* MAJOR GREENWOOD and CECILY M. THOMPSON. Both diets declined in "calorie" value between 1917 and 1918, but the English diet remained high relatively to the German.

MARCH. *The Taxation of the Various Classes of the People.* Presidential Address of the RIGHT HON. HERBERT SAMUEL. By combining direct and indirect taxes—death duties being evaluated in terms of income—the taxation of unearned income is found to be about 64 per cent. on incomes of £50,000, 50 per cent. on £10,000, 43½ per cent. on £5,000; with other contrasts to pre-war taxation. *Problems of Industrial Organisation.* MAJOR GREENWOOD. Results obtained from statistics of war-work throw light on industrial efficiency. The mobility or "wastage" of factory labour is treated on the analogy of a death-rat *Psychical Research and Statistical Method.* PROF. F. Y. EDGEWORTH. A critical examination of experiments designed to test the hypothesis of thought-transference.

The Edinburgh Review.

APRIL, 1919. *The Future of the English Race.* THE DEAN OF ST. PAUL'S. The theory of population leads to the conclusion that "neither voluntary restriction of births, nor famine, nor pestilence, nor war, has much effect in reducing numbers." Expedients for increasing numbers, "such as endowment of parenthood, and better housing at the expense of the taxpayer, have no effect but to penalise and sterilise those who pay the doles." But "the apparently inevitable ruin of the upper and middle classes, sinking helplessly under the blows of predatory taxation," is not an unmixed misfortune. *The Problem of the Age.* A. SHADWELL. A striking quotation from a labour paper of 1834, expecting "comfort and liberty" with a coming "new system of labour," introduces reflections on the present system and schemes for its improvement, with a good word for the Guild Socialists as recognising the element of "liberty." *Economic Fallacy in Industry.* SIR LYNDEN MACASSEY. A formidable list of fallacies observed to prevail among the working classes. They believe that all their aspirations could

be satisfied out of existing profits, especially if the manufacturer raised his prices sufficiently. Indifferent about the results to the community, they practise limitation of output. There are instances of men on piece-work earning only half or two-thirds of what boys and women, by whom the writer replaced the men, earned at the same rate per piece. There is a prejudice against machinery and other labour-saving devices. Industry is retarded by the requirement of skilled pay for unskilled operations. Enmity to employers is fostered as procuring concessions, and as a step towards the overthrow of the present industrial system.

Journal of the Institute of Bankers.

MARCH, 1919. *Prospects of National Taxation.* ALFRED HOARE. In view of our immense liabilities, the increase of direct taxation, systematically graduated, is recommended.

APRIL. *The Interdependence of Nations.* SIR GEORGE PAISH. *The Economics of a War Indemnity.* SIR CHARLES ADDIS. An excessive indemnity is deprecated as encouraging future aggressors if confident of success, as contrary to the armistice, as crippling a creditor and customer, and as dislocating our own industry.

MAY. *The Economic Outlook.* EDGAR CRAMMOND. A cheerful prospect. The productive power of the country has been increased by at least 50 per cent. over 1913 in consequence of the war.

Indian Journal of Economics.

DECEMBER, 1918. *The Indian Income-tax.* S. M. PAGAR. *The Art of Economic Development* VI. H. STANLEY JEVONS. Prof. Jevons continues his original reflections on the "maximation of happiness" as the aim of social action, and other philosophic themes. *Co-operation.* NANALAL C. MEHTA. Personal observations have made the writer doubtful about the success of the movement in India. *Anomalies in the Currency of Hongkong.* W. J. HINTON.

Quarterly Journal of Economics (Cambridge, Mass.).

FEBRUARY, 1919. *Price-Fixing as Seen by a Price-Fixer.* F. W. TAUSSIG. The tendencies called "economic laws" were somewhat restrained. Thus prices of food and fuel were prevented from rising and from fluctuating as much as they would have done without regulation. *The Burden of War and Future Generations.* A. C. PIGOU. A direct *objective* burden is imposed on the future by the deterioration of capital and other less obvious incidents of war, but *not* by the payment of interest on an internal war loan, or the repayment of the loan by a sinking fund. A *subjective* burden is caused by a loan when, as usually, the interest paid to the rich is largely raised from the poor. A present levy has the further advantage that taxes levied in war-time, not being expected to continue, react less strongly upon production. *Wage Theory and Theories.* H. S. DAVENPORT. *The Taxation of Luxuries and the Rate of Interest.*

A. F. McGoun. The diversion of labour to the production of capital would tend to lower interest. *War Labor Policies and their Outcome in Peace.* L. B. Wehle. *Four Labor Programmes.* T. N. Carver. I. The "balancing-up programme" consists in increasing the quantities of commodities—especially factors of production—so that there should be less inequality between their marginal utilities, and accordingly in their remunerations, in a *régime* of perfect competition. For instance, men might be encouraged to save as they now are to work. II. "Collective bargaining" has attractions for those who as individuals are superfluous, but as a class are indispensable—*e.g.* ditch-diggers. III. The voting programme is chosen by those who, owing to their numbers, are weak in bargaining, but strong in voting. IV. Where the numerical strength is overwhelming, the "fighting programme" may be expected.

The American Economic Review (Cambridge, Mass.).

March, 1919. *The Procedure of Contemporary Railroad Reorganisation.* A. S. Dewing. *The War-Tax Paradox.* H. S. Davenport. Mill was not far wrong when he taught that a great part of the burden of war fell on labourers both during and after the war. *Price-Fixing in a Competitive Industry.* L. H. Haney. The fixings in the case of the print paper manufacturing industry are criticised. *The Federal Farm Loan System.* G. E. Putnam. *Labor Turnover.* G. J. Eberle.

Political Science Quarterly (New York).

December, 1918. *The Public Finance of Santo Domingo.* F. R Fairchild. *Limitations of the Ricardian Theory of Rent.* II. W. R. Camp.

Journal of Political Economy (Chicago).

February, 1919. *Food Control and Price-Fixing in Revolutionary France.* I. H. E. Bourne. *Industrial Combination and the Standardisation of Production.* Homer Hoyt. *Nature and Computation of Labor Turnover.* Boris Emmet. A study on maintaining productive output.

March. *Labor Administration in the Shipbuilding Industry during War-Time.* I. P. H. Douglas and F. E. Wolfe. *Food Control and Price-Fixing in Revolutionary France.* II. H. E. Bourne.

April. *The Industrial Outlook.* H. L. Reed. Not a cheerful prospect. *The War Housing Programme and its Future.* Curtice W. Hitchcock. *Reconstruction and Natural Resources.* Raphael Zon.

American Academy of Political Science (Philadelphia).

January, 1919. This number deals with a *Reconstruction Labor Policy.* Samuel Gompertz deals with *Labor Standards after the War.* Wages for women workers equal to those of men are earnestly claimed by Mary Anderson; and there are more than a score of other interesting articles.

The Review of Economic Statistics (Cambridge, Mass.).

JANUARY, 1919. The first number of a review published by the Harvard University Committee of Economic Research. The Chairman of the Committee, to whom communications should be addressed, is Prof. Charles Bullock. The annual subscription is $100. The magnitude of this price is explained by the sumptuous elaboration of the charts and tables. This preliminary volume consists chiefly of a study of statistical method applied to determine indices of business conditions by PROF. W. M. PERSONS.

Journal des Economistes (Paris).

FEBRUARY, 1919. *L'Allemagne et la Conférence de la Paix* YVES GUYOT. *Rapports des Commissions d'Enquête Anglaises.* A. RAFFALOVICH. *Effets de la Guerre sur la vie Economique de Chili.* G. SUBERCASEAUX. *Les Progrès Economiques de la Grèce.* A. ANDRÉADES.

APRIL. *La tyrannie Socialiste et le triomphe de Karl Marx.* YVES GUYOT. Examples of dangerous labour unrest are taken from the United States, Great Britain, and France. *Réflexions d'un Economiste.* A. RAFFALOVICH. On the situation of labour in England, and money in parts of the Continent.

L'Economiste Français (Paris).

MARCH–APRIL, 1919. M. Edouard Payen continues his instructive studies of particular commodities. *Rubber* (MARCH 15th) is one of the few articles that have not risen in price since the outbreak of the war, owing largely to the provision for production that had been previously made. There has been immense increase in the use of the article for boots (suited, perhaps, for trench work). There is anticipated a continued increase in production matched by increase of demand—that of Central Europe in particular. *Silver* (APRIL 5) has almost doubled its price during the war from 25·3 pence per oz. in 1914 to 47·5 in 1918, the demand for cash payments coinciding with a rise in general prices. *Jute* (APRIL 26) is one of the very few commodities of which the production is confined to a single region (India). Seven-eighths of the manufacture was enjoyed by Dundee sixty years ago, but in 1914 only one-eighth, half of the total crop (10,000,000 bales) being worked up in India. The article was in great demand during the war for sandbags and as a defence against bombardment from the air. M. Arthur Raffalovich denounces (APRIL 19) the monetary enormities of the Bolshevists.

Revue d'Economie Politique (Paris).

JANUARY–FEBRUARY, 1919. *La théorie économique des dépenses de la guerre.* B. CHLAPNER. How can a nation whose yearly income is but little above £2,000,000,000 spend some £8,000,000,000 on the war in four years? How can the belligerents have spent some £36,000,000,000? An answer is given

to these questions. *Le rouble pendant la guerre.* BORIS ELIACHEFF. The fall and the oscillations in the value of the rouble are recorded and explained. *Les étrangers en Suisse.* L. HERSCH.

Jahrbücher für National-Ökonomie und Statistik (Jena).

JANUARY, 1919. *Goldwährung oder Goldkernwährung.* OTTO HEYN. In continuation of a controversy with Prof. Diehl as to whether the best monetary standard would be gold or such a standard as Germany now has and Austria had.

FEBRUARY. *Der Betriebsverlust als Minderwert.* W. H. EDWARDS. *Das bevolkerungstatistische Grundproblem.* E. HAEMIG. The theory of means applied to vital statistics. *Zur Frage der "Dumping."* CRON-WOLFGANG.

Schmoller's Jahrbuch (Leipsic).

No. I. 1919. *Die Wechselwirkung zwischen wirtschaftlicher und Bevölkerungsentfaltung nach Malthus.* KARL SCUTEMANN. *Die Ernahrungslage in Deutschland zu Beginn der funfter Kriegsjahres.* KARL THIERS. The power of Germany to feed herself is estimated more hopefully in a lecture given in September, 1918, than in an addendum dated January, 1919. Among the causes assigned for this difference are the cessation of supplies exacted from conquered territories and of work from prisoners of war.

Giornale degli Economisti (Rome).

FEBRUARY, 1919. *L'imposte sulla ricchezza dopo la guerra.* B. GRIZIOTTI. Various plans for increasing the contribution of the richer classes are considered. *La nozione dei cosidetti "bisogni publici."* E. LOLINI.

MARCH. *Problemi economi dell' Italia alla Conferenza.* A. CABIATI. The unification of fiscal fronts and other current proposals are criticised; the Cobden Club is praised. *L'impiego delle machine in agricultura.* E. MARENGHI.

APRIL. *La situazione economica.* L. AMOROSO. The situation is bad, largely owing to the mismanagement of the (Italian) Government. The increase of paper money after the armistice was especially indefensible. It will not increase real wages. *Il censimento dei profughi di guerra.* V. CASTRILLI. On estimates of the number of fugitives from Venetia and neighbouring regions during the recent invasion. *Il vizio organico della proprietà territoriale in Sardegna.* M. VINELLI. The evil of "morcellement" is crying.

La Riforma Sociale (Turin).

JANUARY–FEBRUARY, 1919. *La terra ai contadini, la terra agli impiegati.* G. PRATO. *Nuovi stelloncini critici.* ACHILLE LORIA. The arrows of criticism fly right and left, aimed at now a Walras, now a Pantaleoni. Even J. S. Mill is not spared. *Condizioni operaie in Germania durante la guerra mondiale.* R. MICHELS.

NEW BOOKS.

English.

ANONYMOUS. Mr. Hughes. A Study. London: Fisher Unwin. 1918. Pp. 196. 6*s*.

[A bitter denunciation of the Australian Premier's tariff policy and the way in which it is advocated.]

ARNOTT (R. PAGE). Facts from the Coal Commission. With a Foreword by R. Smillie and F. Hodder. London: Allen and Unwin. 1919. Pp. 40. 6*d*.

CARTER (HUNTLY). The Limits of State Industrial Control. A Symposium on the Present Situation and How to Meet It. Edited by H. Carter. London: Fisher Unwin. 1919. Pp. 292. 16*s*. n.

[The contributors, more than forty in all, include Sir Hugh Bell, Lord Bryce, Miss Margaret Macmillan, Mr. Bernard Shaw.]

CHOSE (S. C.). A Monograph on Railway Rates. Calcutta: Government Printing Office. 1918. Pp. 595.

CUNNINGHAM (ARCHDEACON WILLIAM). Hints on the Study of English Economic History. (Helps for Students of History, No. 14.) London: Society for Promoting Christian Knowledge. 1919. Pp. 64.

FOXWELL (H. S.). Papers on Current Finance. London: Macmillan. 1919. Pp. 280.

[To be reviewed.]

GARVIN (J. L.). The Economic Foundations of Peace; or World Partnership as the Truer Basis of the League of Nations. London: Macmillan. 12*s*.

Labour Year Book. 1919. Issued under the Auspices of the Parliamentary Committee of the Trades Union Congress, the Executive Committee of the Labour Party, the Labour Research Department. London: 33 Eccleston Square. 1919. Pp. 463.

[This small volume, in very small print, contains a great deal both of solid fact and of speculative matter. Alongside the statistics of strikes and of co-operation are the views of Mr. H. G. Wells on the essentials of an enduring peace, the arguments of Mr. Sidney Webb in favour of a capital levy combined with "a much greater use than at present of the income tax and supertax," and Mr. G. D. H. Cole's criticisms of *Scientific Management*. Mr. Cole and Mr. J. S. Middleton are joint-managers.]

MACKINDER (H. J., M.P.). Democratic Ideals and Reality. A Study in the Politics of Reconstruction. London: Constable. 1919. Pp. 272.

MILNES (ALFRED). The Economic Foundations of Reconstruction. London: Macdonald and Evans. 6*s*. 6*d*.

RAWLEY (RATAN C.). The Silk Industry and Trade. A Study in the Economic Organisation of the Export Trade of Kashmir and Indian Silks, with Special Reference to their Utilisation in the British and French Markets. London: King. 1919. Pp. 172.

Rowntree (Joseph) and Sherwell (Arthur). State Purchase of the Liquor Trade. London: Allen and Unwin. 1919. Pp. 95. 1s.

Scott (J. W.). Syndicalism and Philosophical Realism. A Study in the Correlation of Contemporary Social Tendencies. London: Black. 1919. Pp. 215.

[The author is lecturer in moral philosophy in the University of Glasgow.]

Sheffield (Lord). Imperial Preference. An Examination of Proposals for its Establishment made on behalf of the Government by Mr. Lloyd George. London: Cobden Club. 6*d*.

Slavko (Šećerov). Economic Phenomena before and after the War. A Statistical Theory of Modern Wars. London: Routledge. 1919. Pp. 226.

Soward (Sir Alfred W.) and Willan (W. E.). The Taxation of Capital. London: Waterlow. 1919. Pp. 408.

[To be reviewed.]

Stoll (Oswald). Freedom in Finance. London: Fisher Unwin. 1918. Pp. 229.

[A scheme by which credit might be widely distributed as a right rather than a favour.]

Wolff (Henry W.). Co-operation in India. London: Thacker. 1919. Pp. 352.

American.

American Economic Association. Papers and Proceedings of the Thirty-first Annual Meeting (at Richmond, Va., December, 1918). Princeton. 1918. Pp. 368.

["Economists in Public Service" was the subject of the presidential address by Prof. Irving Fisher. "Interest on Investment as a Factor in Manufacturing Costs," "The War and the Supply of Capital," and "An Index of the Cost of Living" were subjects of papers and discussions. Prof. E. A. Ross advocated a "legal dismissal wage," say, a fortnight's wages for one dismissed without fault on his part. "Price-fixing" received much attention. Prof. Carver argued that, if there is a free market, the price which it would establish, affording the maximum utility, could not be improved (in peace-time) by a price-fixing board.]

Andrews (Irene O.), assisted by Hobbs (Margaret A.). Economic Effects of the War upon Women and Children in Great Britain. (Carnegie Endowment for International Preliminary Economic Studies of the War. Edited by D. Kinley.) New York: Oxford University Press. 1918. Pp. 190.

Arbitration and Wage-Fixing in Australia. Research Report No. 10. Boston: National Industrial Conference Board. 1918. Pp. 152.

[The system has involved reduction in efficiency. The question is whether that cost is justified by social advantages.]

Dixon (F. H.) and Parmelee (J. N.). War Administration of the Railways in the United States and Great Britain. New York: Oxford University Press. Pp. 155. 4*s*. 6*d*. net.

[This is an account of the war administration of the railways to the end of November, 1917. It is thus an incomplete preliminary study. The rapidity of the compilation and publication is praiseworthy, but is probably the cause of a number of inaccuracies, which it may be hoped will be corrected should the authors at a later date re-publish the monograph with a continuation up to the end of the war. The publication has been made possible by the Carnegie endowment for international peace.]

ELY (R. T.). The World War and Leadership in a Democracy. New York: Macmillan Co. 1918. Pp. 189.

[One who had been the friend and admirer of Germans in former times now recalls some traits and tendencies which lessen the surprise caused by the enormities of the last four years. Prof. Ely takes the opportunity of discoursing powerfully on the neglected text that the few stand out from the many, that the encouragement of and deference to an aristocracy of capacity and character is required for the success of popular institutions.]

ELY (RICHARD T.), HESS (RALPH H.), LEITH (CHARLES R.), and CARVER (THOMAS N.). The Foundations of National Prosperity. New York: Macmillan Co. 1918. Pp. 378.

["Conservation" in different connections is treated by each of the four authors in a separate essay.]

ESCHER (FRANKLIN). Foreign Exchange Explained. A Practical Treatment of the Subject for the Banker, the Business Man, and the Student. New York: Macmillan Co. 1918. Pp. 219.

FOLWELL (W. W.). Economic Addresses. Minneapolis: University of Minnesota. 1918. Pp. 99.

[The Ethics of Business; Trusts; The Single Tax; Socialism, true and false; The New Economics, are the subjects of the addresses.]

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THE ECONOMIC JOURNAL

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THE REPORTS OF THE COAL INDUSTRY COMMISSION

The Coal Commission found it necessary to issue four reports at the conclusion of the second stage of their proceedings. In ordinary circumstances it would have been a notable fact that a body so diversely composed should have unanimously recommended the nationalisation of mineral rents as a common feature of all four reports. But this and all other features of agreement are dwarfed in importance by differences on the larger question of the nationalisation of the mines. Of the four reports, that of the six representatives of Labour is essentially a reservation on points of detail to that of Mr. Justice Sankey, with which they declare themselves "in substantial agreement." Mr. Justice Sankey's Report thus becomes in effect a majority report, and this fact, together with his personal position as the impartial Chairman of a Commission based on the representation of interests, invests his conclusions with a special importance.

Mr. Justice Sankey recommends "that the principle of State ownership of the coal mines be adopted"; and he puts forward, not indeed as a recommendation, but as a "suggestion," a scheme of "local" as contrasted with bureaucratic administration, which embodies the principle that the workers engaged in the industry should participate effectively in its control. The scheme provides for a Minister of Mines, responsible to Parliament, and for a three-tier system of Councils—Local, District, and National—upon all of which the miners are to enjoy substantial representation. Of these authorities, by far the most important are the District Councils. It is in them that the "main executive authority" is to rest. "Subject to the direction of the Minister of Mines, the District Mining Council shall manage in its district the entire coal extraction; the regulation of output; the discontinuance of,

or opening out of, mines; trial sinkings; the control of prices and the basis of wage assessment; and the distribution of coal." "The District Mining Council shall appoint all mine managers and all commercial mine managers within its own district." The National Council and the Local Councils, on the other hand, are to be practically confined to advisory functions. The business of the Local Councils is "to advise the manager on all questions concerning the direction or safety of the mine." They have no authority over the manager, though there is an appeal to the District Council "if the manager refuses to take the advice of the Local Mining Council on any question concerning the safety and health of the mine." The business of the National Mining Council is to "advise the Minister of Mines on all questions connected with the industry." It will be an unwieldy body numbering about fifty members, elected by the various District Councils; so provision is made for a Standing Committee of eighteen. "Assisted" by this Committee, the Minister of Mines is to "superintend the operation of the District Mining Councils." The negative aspect of the word "superintendence" is underlined by what follows. The Minister may "veto any resolution come to either by a Local Mining Council, or a District Mining Council," though he must "state publicly his grounds for so acting." The active direction of the industry is clearly to form no part of his duties. Superintendence, under the advice of a Standing Committee, representative of the superintended; and a veto, with its fangs drawn by the obligation of a public apologia, are to be his attributes and functions. Important as his *rôle* may be, it will not be that of an autocrat or superman. That of the Chancellor of the Exchequer is more bluntly defined. "The Treasury shall not be entitled to interfere with, or to have any control over, the appropriation of moneys derived from the industry. The said moneys shall be kept entirely separate and apart from other national moneys, until the profit accruing from the industry is periodically ascertained and paid into the Exchequer."

It is in the District Mining Councils therefore that effective control is centred. Subject to a general superintendence, and the necessity of making the industry self-supporting, they may pursue their own policies with a free hand and a free purse. Their finances are to be kept "entirely separate" from one another. The districts, which thus become the units of effective government, are to be large areas, numbering, according to Mr. Justice Sankey's tentative suggestion, fourteen for the whole of Great Britain. The members of each District Council are likewise to

number fourteen. A Chairman and Vice-Chairman are to be appointed by the Minister of Mines; "four members shall be elected by ballot by the workers, and the remaining eight members shall be appointed by the National Mining Council as follows:—

Four to represent consumers (of whom in iron and steel districts two at least shall represent the iron and steel trades, and in shipping districts two at least shall represent recognised coal exporters).

Two to represent the technical side of the industry—*e.g.*, mining engineering; and

Two to represent the commercial side of the industry—purchase of material and sale of output." The commercial side of the industry is the subject of some noteworthy provisions, which are an attempt to secure the advantages of co-ordination, while guarding against the horrors of red tape. "The District Mining Council shall appoint a commercial manager, whose duty shall be, subject to the control of the commercial committee, to arrange for the purchase and supply of stores for any mine, and to take steps for the disposal of the output of coal from his district." Further, at each mine or group of mines there is to be a commercial manager, who would deal with the same matters with a considerable degree of initiative and discretion, though subject to the district manager's control. It is specially provided that the private trader is to be entitled, without any discrimination to his advantage or disadvantage, "to purchase coal for export from any mine in the same way as he would have been entitled had such mine remained in private ownership."

It is clear that such an administration would have little in common with that of the Post Office in this country, or of the railways in Prussia or Australia. Of the chief charges commonly brought against nationalisation, only the double-edged one of the elimination of financial incentive has indeed any relevance to these proposals. Those traditional encumbrances of State enterprise—the light-hearted politician anxious to please his constituents at the expense of the public purse; the precedent-ridden bureaucrat, imposing for safety's sake a deadening uniformity; the busy Minister, forced by his position as a narrow bottle-neck for an overwhelming flow of business to act as a check upon enterprise and new methods—have each their powers for mischief narrowly confined. Some of the common claims of the advocates of nationalisation, the prospect, for instance, of a substantial profit for the Exchequer, lose in their turn much of their plausibility. Mr. Justice Sankey might, indeed, well advise the controversialists

on both sides to burn most of their literature. But this controversialists are naturally reluctant to do; and it is, therefore, not surprising that the criticisms which have been directed against his scheme follow the familiar lines—the dangers of political corruption and the incompetence of bureaucracy, driven home by the object-lessons of our disordered telephones, the bad manners of the Prussian official, and the regrettably competitive politics of democratic Australia. The necessity is, indeed, sometimes recognised of establishing some kind of connection between the criticisms and the project criticised, but this is done easily, if not very convincingly, by attributing to those two pests—the politician and the bureaucrat—a mysterious faculty of pervasiveness, similar to that of the boll-weevil, which ensures that, no matter what obstacles may be erected against them, they will somehow succeed in spreading their destructive presence wherever the soil of State enterprise is to be found. Once this convenient assumption is made, it becomes superfluous to examine closely the details of the actual scheme; and the old arguments are free to resume their majestic march.

The real problems raised by Mr. Justice Sankey's proposals are of a different kind, but they are undoubtedly formidable. Will the District Councils hold together, and what will happen if they do not? Are not serious differences of opinion bound to arise between the miners' representatives and the other members? If the former are overruled, will they loyally abide by the decision of the majority; or is it not likely that they will appear a spectacle witnessed already in the case of certain of the War Controls on which Labour was represented as public antagonists to the policies of the Councils on which they sit? And, if they accept the Council's decisions, when they go against them, may they not thereby destroy their own usefulness by forfeiting the confidence of the men they represent? In any case, will not the District Council be so occupied with the problem of reconciling differences between its members as to become unfitted for performing efficiently its proper tasks, which will necessarily require a high degree of mutual confidence and a single-minded attention to business detail? Will it not, in fact, exemplify on a small scale the evils we have come to associate with coalition government? These are a few of the chief difficulties that suggest themselves. It is unnecessary to enumerate more. They are none of them such as should prove insuperable, given an ordinary measure of prudence and good temper on all sides. Failing this, they may bring down to the ground the whole

structure of the scheme. There is no real guidance to be obtained from the experience of past or contemporary institutions; nor are such indications as they afford altogether reassuring. Mr. Justice Sankey would probably not dispute the applicability to his proposals of Sir Richard Redmayne's phrase, which Mr. Leslie Scott was quick to seize and to adopt as the title of his unspoken jeremiad—"a leap in the dark."

But two all-important claims he may fairly make. Given the governing principles which he considers it essential to realise—State ownership and an administration in which the workers effectively participate—it would be hard to devise an abler or more practicable scheme. So far as it is possible to formulate on paper arrangements which will extract from these principles the maximum of advantage and confine their possibilities of mischief to a minimum, Mr. Justice Sankey has done it. To this end, as to many others, the concentration of effective power in the District Councils is the essential means. Representation on a more or less sovereign District Council is likely to evoke in the miners a sense of real participation in the control of the industry, which representation on an active National Council would fail to do. On the other hand, if the Local Councils had been entrusted with executive powers, no limitation of the workers' representation would prove an adequate safeguard against the dangers of indiscipline and chaos, which have brought all experiments in self-governing workshops and Soviets into disrepute. From these dangers the District Mining Council, even if Labour obtains ultimately a controlling voice, should be free. The point is one of human psychology, the importance of which no observer of the widespread disillusionment with Parliamentary institutions can underrate. Somehow or other it comes about that Mr. Smillie is able to address the Prime Minister much as a popular tribune speaking to a non-popular potentate; and, however much we may dislike it, we cannot ignore the fact that the paradox has reality behind it. But then it is revealed to a puzzled public that to the Yorkshire miners, in their piece-rate negotiations, the formidable Mr. Smillie can assume almost the aspect of an interfering outsider, as contrasted with the representative figure of Mr. Herbert Smith. It is unlikely, on the other hand, that Mr. Herbert Smith would find his pre-eminence similarly disputed by the local official of some Yorkshire lodge. It is, indeed, significant that in the structure of their union, which has been evolved as the result of hard experience of problems not altogether dissimilar to those of the management of the industry, the miners for their part have

placed the main authority in the district organisation. In this respect at least Mr. Justice Sankey's scheme is rooted both in human nature and experience.

In the second place, Mr. Justice Sankey can claim that some change, as drastic as he proposes and every whit as much "a leap in the dark," is essential to rescue the coal industry from an *impasse* which is steadily becoming more intolerable. Much was heard during the proceedings of the Coal Commission of the technical inefficiencies of the present system, and of the wastes which unification would eliminate. But graver considerations lie behind these charges of which everyone is aware, but of which there is a general reluctance to speak. Even in his Report Mr. Justice Sankey does not pursue them very far: "The relationship between the masters and men in most of the coalfields in the United Kingdom is unfortunately of such a character that it seems impossible to better it under the present system of ownership. Many of the workers think they are working for the capitalist, and a strike becomes a contest between capital and labour. . . . Half a century of education has produced in the workers in the coalfields far more than a desire for the material advantages of higher wages and shorter hours. They have now, in many cases and to an ever-increasing extent, a higher ambition of taking their due share and interest in the direction of the industry, to the success of which they, too, are contributing." These remarks, however, touch in reality only the fringe of the problem. They apply, if in a somewhat lesser degree, to not a few other industries. Their significance to the problems of the coal industry arises from two other facts special to the industry.

The first is the enormous power of the miners to enforce whatever demands they are sufficiently united to press. Of this no proof to-day is needed, nor of the fact that it is the general community which has both to meet the demands when conceded and to suffer from the steps taken to enforce them. But though these are the realities of the situation, the forms are entirely different. It is the interests of the community that constitute the only appeal to which the miners can be expected to respond by moderating an unreasonable demand, or by abstaining from extreme measures. But neither have the miners any formal responsibility towards the community, nor is the community responsible to the miners for the conditions under which they work and live. Between them steps in a third party—the owners, with their special interests in the shape of profits, which Professor Scott curiously calls "a useful punching-ball," but which

are the source of enormous confusion and exacerbation. Though it is the community who pay the piper in the long run, it is the owners who do so (under ordinary conditions) in the first instance; and theirs is the right to call the tune. It is true that under the present abnormal conditions of control, when the community directly meets the demands of the miners out of the public exchequer, the procedure is simplified, and the Government deal direct with the Miners' Federation. But in ordinary circumstances they cannot do so. In the prolonged coal strike of 1912 it was some time before the Government of the day felt in a position to intervene, and eventually it proved necessary for them to pass a special Act through Parliament to enforce a settlement. Such a method of dealing with some of our most important national affairs, with forms everywhere divorced from realities and power from responsibility, would be an extraordinary one, even if it worked well. It is now ceasing to work at all, and no satisfactory substitute for it can be found which does not involve the principle of State ownership.

The second fact is of equal importance. When the hewer is not striking, but is at work, his output depends more perhaps than that of any other essential worker upon his own choice and goodwill. The nature of his work rules out the degree of close personal supervision possible in other occupations. There is no machine to set for him a pace to which willy-nilly he must respond. By long custom he is practically free to decide for himself the number of days he will work in the week. It is true that he is paid on a piece-work basis; but he is safeguarded by a minimum time wage, which has now been increased to a level sufficiently high to prevent the piece-rates acting on a man who is in a disgruntled mood as a compelling inducement to exceptional exertions. Of this fact also we have sufficient evidence before us. It thus becomes the prime, the ineluctable condition of any scheme for the administration of the industry that it will offer a reasonable hope of enlisting the goodwill of the workers.

Into the present *impasse* enters another factor of a different kind. Under war conditions, and partly it appears as the result of the diversion of many collieries from export to home trade, differences revealed themselves between the profits of different collieries, great enough to constitute a serious obstacle to price-control. The Coalmines Control Agreement, under which profits were partially pooled, was designed to overcome this difficulty. But the pooling was partial only; for, although concerns making excess profits could retain only 5 per cent. of them for themselves,

the Treasury's claim to 80 per cent. left available only 15 per cent. for the pool from which the Coal Controller had to make good the losses and provide the prescribed profit of the collieries which did not pay their way. The variations between collieries were enormous, ranging at one time, according to Sir Arthur Lowes Dickinson, from 6*s*. a ton profit to 6*s*. a ton loss; and it was still necessary accordingly to fix prices at a level, which yielded immense profits in the aggregate. Great play was made with this fact at the Coal Commission. The admission was extorted from Sir Arthur Lowes Dickinson that a 2*s*. 6*d*. increase in the price of coal would have been unnecessary if the pooling of profits had been complete; and, largely as the result of such considerations, the pooling arrangement was made complete with a vengeance by the Government's acceptance of the first Sankey Report, by which profits were to be limited to a fixed rate of 1*s*. 2*d*. a ton. It is on this basis that the price of coal is now determined.

The situation which thus arises has two aspects. On the one hand the "financial incentive" to the economical working of the collieries is, under the present conditions, entirely absent. It makes not the smallest difference to their owners at what cost per ton the coal is produced. But colliery directors are not public servants, with at least a formal obligation to be merciful to the Exchequer. It is inevitable, therefore, that the Government should in a necessarily haphazard manner attempt to supervise their expenditure, with results occasionally as unfortunate as those which followed their recent incursions into the mysteries of the Yorkshire piece-rates. It would be hard to imagine a less satisfactory system. But, on the other hand, so long as the existing differences continue between the profits obtained at the different collieries (and there is no reason to suppose that they are diminishing), it is impossible to restore to the existing colliery companies a financial incentive, much less their financial independence, without throwing further burdens on the now thoroughly aroused consumer. It must be many years before our output of coal becomes sufficient for us to acquiesce in the closing down of the mines which do not pay their way; and there are, accordingly, no alternatives left but to pool profits or to fix prices at a point which will be remunerative to the least prosperous concerns. If, under the partial pooling of the Coalmines Control Agreement, it was necessary to raise the price by 2*s*. 6*d*. per ton above the point which complete pooling would have required, it is plain that a reversion from complete pooling to the

pre-war condition of financial independence would necessitate an immediate advance in price of considerably more than 2*s*. 6*d*. Moreover, these extra half-crowns would, in the probable event of the demise of the Excess Profits Duty, flow exclusively into the pockets of the shareholders of the better situated mines. This must be the immediate effect. As to the ultimate effect, when the force of competition and the stimulus of financial gain had had time to work their charms, divergent prophecies are, of course, possible. But it is very doubtful whether any considerable section of the consuming public would be prepared, when it came to the point, to back their faith in private ownership at so high and so obvious a price. What the miners would do in such a contingency one prefers not to conjecture.

It is in the light of all these difficulties that we must judge the alternatives submitted to Mr. Justice Sankey's scheme. Its failure to deal in any way with this last dilemma would be perhaps sufficient by itself to rule out of court the Report signed by all but one of the employers' representatives. These gentlemen make no suggestions for the unification of the different concerns; apparently they would wish them to remain financially independent, which in practice would probably mean that they would remain in indefinite subjection to the Coal Controller and the fixed 1*s*. 2*d*. profit. Nor have they much to contribute to the solution of the other difficulties. Mr. Justice Sankey's system of National, District and Local Councils appears in their recommendations, but with the vital difference that none of them is to have any authority; they are simply to "discuss," nor is it very clear what they are to discuss. It is not upon the lines of this Report that peace and prosperity will be brought back to the coalfields.

Sir Arthur Duckham's Report deserves more consideration. The difficulty arising from the variations in profit he would overcome by a compulsory amalgamation of the different concerns in each district into a Statutory Company. The affairs of each Statutory Company would be managed by a Board of Directors, numbering not less than seven, of whom "one should be elected by ballot of the agents, managers and under-managers, and two by ballot of the workpeople engaged in the area." The remaining directors "should be appointed in the ordinary way by the shareholders." The policy of this Board as regards prices and profits is to be governed by the familiar "gasworks clause." Of profits in excess of 6 per cent., after an approved provision has been made for reserve, "one-third may be utilised for paying further

dividend on shares, but the other two-thirds must be used to reduce the price of coal." A minimum dividend of 4 per cent. is to be guaranteed by the Government. Sir Arthur Duckham's scheme provides, like Mr. Justice Sankey's, for advisory Pit Committees and for a Ministry of Mines with various functions of "supervision and control." It is indeed worth noting how many important features are common to the two schemes. The centre of gravity in both cases rests in the Area or District. The miners and also the managers are to have much the same proportionate representation on the governing body. The relations of the District Board or Council to the management of the individual mines and to the supervising Ministry would prove very similar. In both cases the virtues of unification within the district are secured; while as between districts a limited scope remains for the stimulus of competition.

What, then, are the points of difference? That arising from the *personnel* of the District Board is probably not material. The profession of directorship in our modern society remains exclusive, but it is ceasing to be highly specialised. To enter its ranks is a privilege reserved for relatively few; but those within them move from trade to trade with a growing freedom. Even to-day a large iron and steel or textile magnate who is also a colliery director excites no surprise. It is not to be supposed therefore that with a common element of labour and managerial representation the election by shareholders of the remaining members will result in a different kind of body to the appointment of persons, specifically to represent consumers (including the consuming industries). Such difference of *personnel* as there may be should certainly be in favour of Mr. Justice Sankey's scheme.

A much more important difference lies in the motives and obligations to which the same men will be subject. Under Sir Arthur Duckham's scheme their primary object and duty will be to make a profit for the shareholders. Under Mr. Justice Sankey's it will be to serve the public interests. It is in this difference that Sir Arthur Duckham, and most of those who prefer his scheme, would perhaps claim that its main superiority lies. So deep, indeed, has become our distrust of the motive of public service that such a view seems to many a natural one. But, indeed, nothing could be more paradoxical. For, after all, the object and justification of Sir Arthur Duckham's scheme can only be that it will serve the public interest best. To set about this end by the extinction of the proprietors of the existing 1,600 colliery concerns and their subsequent reincarnation as the share-

holders of some dozen or score of huge Statutory Companies, in the belief that only the obligation of lining with profits the pockets of innumerable private individuals to whom they have these artificially created ties can evoke the highest efficiency and integrity in the directors and managers, is surely a masterpiece of indirection and inconsequence. It is hard to recognise in this curious construction the heir and descendant of Adam Smith's system of natural liberty.

Much, doubtless, can be said for it. Apart from the question of financial incentive, which is certainly overstressed, profits fulfil a by no means negligible function. They constitute a single, definite criterion; they supply at once a unity of aim and a means of measurement which simplify the whole problem of management. To exchange this single criterion for the loftier but vaguer and more numerous objects which constitute the public welfare is to embark upon a sea of troubles; it becomes necessary to balance against one another considerations which in their nature are often imponderable; and it is certainly possible that the results may be less satisfactory without any failure of goodwill or efficiency on the part of those responsible. Even so, to shirk the direct method of attacking the problem, because it raises difficulties of this type, and to prefer the roundabout and highly artificial process described above would surely imply, even if this were the only issue, an uncalled-for degree of cynicism and despair. But this issue does not stand alone. The fundamental test has still to be applied to Sir Arthur Duckham's scheme—What prospects does it offer of reconciling the miners and winning their co-operation? Here, beyond question, it compares unfavourably with that of Mr. Justice Sankey. Consider the position of the miners' representatives on the District Board. If it may prove difficult for them, under Mr. Justice Sankey's scheme, to work harmoniously with their colleagues and retain at the same time the confidence of their constituents, it will be infinitely more difficult for them seated on Sir Arthur Duckham's Board in company with men to whom the obligations of private profit are avowedly to be supreme. The working miners for their part would retain the sense that they were toiling for private profit with all that this sense gives of irritation and irresponsibility. Negotiations between the miners and the public would still be obstructed by the interposition of a third party; their mutual responsibility would remain obscured, their relations perhaps aggravated by a notion of the possibility of an unholy alliance between the workers and the shareholders at the expense of the public. Nor are these

imaginary difficulties. The attitude of the miners' leaders towards the two schemes may fairly be assumed to indicate that of the men they represent.

What solid gains, then, has Sir Arthur Duckham to offer to counterbalance this enormous, if incalculable, loss? One thing he would probably count as a gain; certainly it is this that most appeals to many of those who support his scheme. The principle, the mere name of State ownership, would be avoided. No precedent would be established, striking and dangerous, capable of application to other industries, offering an objective and rallying-point to those who are seeking to transform the whole structure of society. But to state this point of view is at the same time to state the objection to it. It smacks too much of ulterior motive, of manœuvre. And the problem of the coalmines has become far too acute to offer a chance of success to any policy so inspired.

What, above all, is needed is a spirit of plain and open dealing, a spirit of statesmanship in the best sense of the term to solve what is essentially a problem of statesmanship. The great merit of Mr. Justice Sankey's Report is that it is instinct with this spirit. The concessions which he makes to the principle of self-government in industry are moderate and cautious, but they are unmistakably straightforward and sincere; so it is that they have secured the support of the miners' leaders; and so it is that we may reasonably hope that they would evoke from the miners in their daily round a similar response. And, if by success and example these proposals should indeed serve to prepare the way for further developments; if they should prove the starting-point of a slow and ordered evolution by which the present industrial system is ultimately transformed into one in which self-government is the means, and the end is public service, who is there who is alive to the ferment of ideas raging throughout Europe, and to the deep-seated, irrepressible desires which these ideas seek to express, who is yet rash enough to count that a matter of reproach? Mr. Justice Sankey's Report is confined to the problem of the coalmines, as closely as was the celebrated Report of Lord Durham to the then dark and difficult problem of the governing of Canada. It may well be that it will eventually assume the same honoured place in an equally great tradition.

H. D. HENDERSON

NOTE ON THE ECONOMICS OF THE POOLING OF PROFITS

The remarks made above on this subject tacitly endorse a claim made by the advocates of nationalisation, which is of great economic interest. This claim, of which much was heard at the Coal Commission, is usually put somewhat as follows: that the surplus profits of the more remunerative mines could be used to pay for the losses of the poorer undertakings. In this statement of the claim the economist is apt to sniff a fundamental misconception of the theory of rent; and it was in this spirit that Professor Cannan characteristically retorted in the course of his lively evidence: "To apply the surplus gained on the fertile mines as a subsidy for working some which it is not really worth the community's while to work would be like applying the rents of lands in Middlesex to growing corn on the top of Ben Nevis or reclaiming the Goodwin sands." These words, properly interpreted, are true; but they are really irrelevant to the problems of the coal industry, and are certainly irrelevant under the conditions which are bound to prevail for some years to come.

There is no coal at present being worked which "it is not really worth the community's while to work." The equation between utility, price and cost, which normal conditions are assumed to establish at the margin of production, no longer exists. The Government fix the price of coal at a level below the cost of production of many collieries, but still further below the marginal utility of the coal raised. An indication of the enormous difference between price and marginal utility is afforded by the prices obtainable in the export trade. In the White Paper (Cd. 252), issued to justify the recent 6*s*. advance in the price of coal, the loss which is expected to result from the enforced reduction of exports is estimated at £1 per ton. In other words, we can sell coal abroad at a price of about £1 per ton in excess of what it costs us on the average to produce. The least remunerative colliery is certainly not working at a loss of anything like this magnitude. The truth is, of course, that coal is so indispensable a need of modern communities that the demand is exceedingly inelastic. Supply, under present conditions, is even more inelastic; and for the time being the two curves fail to meet.

But in time it may perhaps be hoped, though certainly not for several years, that the output of coal will be capable of expansion to meet whatever the demand may be at the price-level that is fixed. We may assume that the policy of those in

authority under State ownership would be to fix prices at a level which would, over the aggregate of the collieries in a district, cover, but no more than cover, the costs of production (including, of course, the interest charges for the purchase of the mines). There would be many collieries whose costs of production would accordingly exceed the price obtained, while the price would then be a fair index of the marginal utility to the consumer. Some coal would thus certainly be produced at a cost greater than its utility to the individual purchaser. But it is very unlikely, even so, that it would not be "really worth the community's while to work" this coal. For coal, as a basic commodity, yields to the community a "social surplus," in excess of its utility to the consumer, which is great, if incalculable. Once more the export trade may serve to illustrate the point. One of the classic advantages of our export trade in coal is that it enables our ships to earn freights both ways, and so both promotes the prosperity of our shipping industry and reduces the freight charges on our essential imports. But it is not the export merchant or the foreign buyer of our coal who reaps this advantage, and it does not, therefore, enter into the marginal utility to the purchaser. It seems fair to assume that the "social surplus" arising in this and other ways will be sufficient to outweigh any apparent loss that is probable on the working of the less profitable mines. These points are illustrated diagrammatically below.

But another aspect of Professor Cannan's appeal to the theory of rent requires consideration. Would it not be better to transfer the capital and labour from the less remunerative mines and employ them in a more intensive working of those more remunerative; to produce, in other words, the same quantity of coal in the one case as in the other, but at a smaller total cost? Here, again, a special feature of the coal industry renders the point invalid. Coal is a wasting asset; and to close down the less remunerative mines would mean in most cases the permanent loss of their coal. Any tendency, therefore, which State ownership may have to continue the working of the poorer mines when private enterprise would shut them down is likely to prove immediately, it may be, to our disadvantage, but to our ultimate gain.

H. D. H.

DIAGRAM 1.

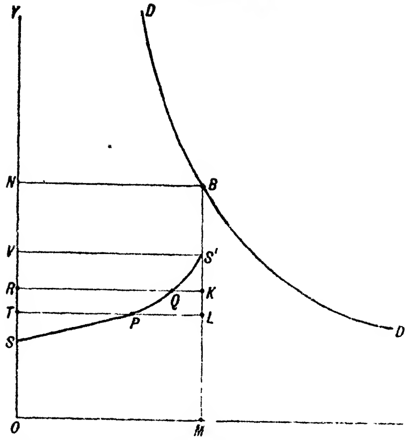

Diagram 1 represents the present conditions of supply and demand, likely to prevail for some years. The supply curve *SS'* stops short at *S'*.

(1) In the absence of control, the price would settle at *BM*, yielding aggregate excess profits *SS'BN*.

(2) Under price-control, without any pooling of profits, the price cannot be fixed below *MS'*, leaving excess profits *SS'V*.

(3) Under the partial pooling of the Coalmines Control Agreement, it was necessary to fix a price *MK*, such that $\frac{15}{100} SQR \nless S'QK$.

(4) Under the present system of complete pooling, the price can be fixed at *ML*, such that $SPT = S'PL$.

The diagram is constructed on the assumption that the present fixed profit of 1*s.* 2*d.* per ton (which enters into the supply curve) roughly represents the pre-war profits.

DIAGRAM 2.

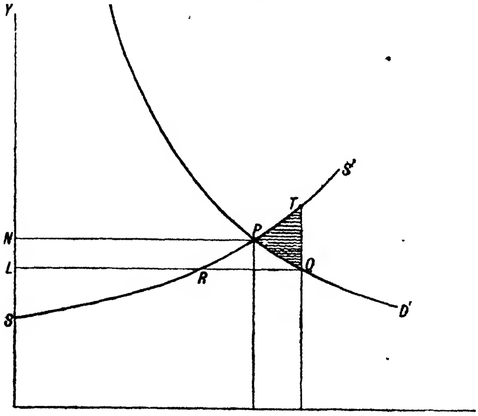

Diagram 2 represents the conditions, when supply can again be expanded to meet demand.

(1) Under the present system of private ownership, price would be *MP* and production *OM*.

(2) Under state ownership, the price would be fixed at *KQ*, so that $SRL = TRQ$. Output would be *OK*, and of this, *MK* would be produced at a cost exceeding its utility to the consumers. This excess is represented by area *TPQ*. A "social surplus" of not less than *TPQ* is therefore necessary to justify the production of this coal.

THE NORTH RUSSIAN CURRENCY

WHAT follows is an attempt to describe the origin and operation of the issue of the currency made in 1918, at the suggestion and with the co-operation of the British Treasury in London, by an appanage of that Russian Government which established itself in North Russia after the flight of the Bolshevik authorities from those parts. It must be prefaced by a summary of events affecting Russian currency up to the date of the first issue of the currency to be described.

It is well known that Russian currency went through many vicissitudes during the nineteenth century, but when the war broke out in 1914 it was on a stable basis (judged by the standards then existing), a note issue of 1,663 million roubles being backed by a gold reserve of 1,603 million roubles, the State debt being at that time about 8,824 million roubles. The Tsar's Government showed no courage in financial policy after the outbreak of war, with the result that at the beginning of 1917 not only had the State debt, quite naturally, increased to 33,580 million roubles, but the note circulation had risen to 9,103 million roubles against a gold reserve which had fallen to 1,175 million roubles. Moreover, despite the liberality with which England provided the Russian Government with credit abroad, the rate of exchange on London had fallen from 9·57 [1] roubles for one pound sterling (par being 9·45) to 17 roubles for £1 before the Tsar fell in March, 1917. The period between the first and second revolutions of 1917 was marked by the political predominance of the middle classes, a further inflation of the currency and great activity in speculation and company promotion—during these six months 640 new companies were registered compared with 399 during the whole of 1913. As a result of Kerenski's government, the rate of exchange had fallen from 17 roubles for £1 to 35.

The coming into power of the Majority Social Democrats (the Bolsheviks) was followed by a repudiation of National Debt (except that coupons from certain Government bonds were taken as legal tender) and by a general nationalisation of industry and

[1] The exchange is taken throughout at the equivalent of £1, not on the old basis of the equivalent to £10.

public companies, including finally all the banks (with the exception that after a week the Co-operative or Moscow Narodni Bank recovered, temporarily, its independence). By a decree of December 14th, 1917, all the private banks were nationalised, and the edifice of commercial credit and speculation, founded since 1900 and developed in 1917, had collapsed. In addition, all private bank balances exceeding 10,000 roubles were confiscated, restrictions were placed on the cashing of cheques, and the national supply of cash became gradually concentrated in the hands of the peasants on the one side and those of the Bolshevik authorities on the other. These latter needed it all (the circulation was then probably about 20,000 million roubles), and in addition they set the printing presses more actively than ever to work, so that, as there was no decent system of taxation by which currency could be recovered, the note circulation had doubled again by June, 1918. The Bolshevik Government was not the only printer of notes unbacked by gold or credit. All over the country forgery became active, chiefly of the ridiculous "beer-labels"—20- and 40-rouble notes invented by the Kerenski Government. Even the old *régime* notes, in which the public maintained a touching confidence, represented by a market premium of about 12½ per cent., were forged in the remote villages of the South and North (such as Shenkursk), as well as in the official printing presses of the great towns. Local issues of currency by branches of the former State Bank became frequent, and Archangel rejoiced in such an issue, called from their design "Walruses." Thus, in addition to the various issues of the Tsar *régime*, the 1,000- and 250-rouble notes issued by the Duma immediately after the Tsar's fall, the Kerenski "beer-labels," various issues of repudiated Treasury bills that had been created by pre-Bolshevik Governments, and Tsar postage-stamps declared legal tender by the Bolsheviks, the average Russian district also enjoyed a circulation of unpaid coupons, some distinctively local paper currency, and occasionally, as in Archangel, a Treasury bill issue of the local authorities might also be circulating as currency. Gold and silver had, of course, disappeared long ago, and Tsar notes, by the operation of the same law, were also hoarded. As a result a meatless lunch without alcohol cost 45 roubles, and in the case of certain articles, such as cigarettes and sugar, which were exceptionally scarce in certain areas, the prevalence of barter gave even more striking examples of the worthlessness of the currency system. Yet, for reasons to be described, 45 roubles were nominally equivalent to £1.

Such were the financial circumstances under which Allied military intervention in North Russia began in 1918. On June 23rd an Allied force reached Murmansk, and on August 2nd Archangel was taken, and the Bolsheviks driven 100 miles south to about the positions they now occupy. The country was flooded with currency the purchasing power of which was barely $2\frac{1}{2}d.$ per rouble, equal to an exchange of 96. But, owing to the collapse of banking and the prohibition by the Bolshevik Government of dealings in foreign exchange, it was hard for foreigners to purchase any large supply of actual roubles. Actual notes had, in fact, acquired a scarcity value in Russia and Scandinavia, of which speculators were quick to take advantage. In fact, when any considerable amount of roubles had to be purchased for the Allies as late as the summer of 1918 they cost about 41 to the pound or $6d.$ each, though their true purchasing power was $2\frac{1}{2}d.$ each at the most.

The Allied forces taking part in the military intervention were under purely British command, and first at Murmansk, then at Archangel, needed Russian currency for local payments for goods and services. First at Murmansk, then at Archangel, there were local Russian authorities friendly to the Allies and opposed to the Bolsheviks. For political reasons it seemed right that these local Russian authorities should be treated sympathetically, and it was further decided in London that the military authorities should pay their way as they went, thus providing a desirable contrast to German methods in the Ukraine.

Against this need of the Allied military authorities for Russian money wherewith to buy local goods and services, the Russians in the particular areas affected needed foreign money wherewith to buy food and clothing for the winter, which they could not obtain from the other parts of Russia from which they had separated themselves by a fighting front, and could not anyhow have hoped to obtain owing to the breakdown of communication by railway and river.

Under these circumstances a request was made by the British military authorities on July 9th, 1918, that notes, in various rouble denominations, should be printed in England. The idea was that these notes should be handed to the local Russian authorities who would use them to pay their expenses (for, like the Bolsheviks, they lacked adequate revenue from taxation). The notes would be given a value by a declaration by General Poole that the foodstuffs imported from abroad would be sold in return for the new notes. Thus, broadly, the Allies would have obtained

these new notes for the goods they sent to Russia, and could have used the new notes for the expenses made necessary by their military policy. It is probable that difficulties would have arisen in getting these notes quickly enough into circulation. The British authorities would have had to borrow or purchase them, to start with, from the Russian authorities, and the workmen who received them might have been suspicious, with reason, of their value until their power to purchase the imported supplies had been proved. However, the proposal did not seem quite unreasonable, and the printing of notes, of a Russian appearance and surcharged "Northern Russia," was accordingly begun in England in July, 1918.

At the same time as the slender Allied forces were engaged in forcing the entrance to Archangel a revolution was taking place (August 1st) in the town itself. As a result a Government was set up consisting chiefly of Socialists other than Bolsheviks drawn from various parts of Russia, and this Government immediately engaged in informal conversations with the representatives of the Allied Powers. The political character of this Government was subsequently modified, but relations of this sort have been maintained ever since. A week after the landing the Russian authorities had initiated financial discussions with the Allies. Of course, they wanted help, and help in a scheme by which they could issue one more set of roubles without control. What they wanted, therefore, was an Allied "guarantee," against which they were prepared to offer security in the shape of concessions to exploit some of the forests which abound in Northern Russia. The "guarantee" was to take the form of a promise by the Allies that the roubles to be issued would be as good as any "All-Russian" roubles. The scheme was unworkable and was rejected by the Allies; it is referred to as an example of the sort of thing Russians were thinking about their own currency. Another school advocated the establishment of an Allied bank with the right of issuing notes. The local Russian Government played with these ideas, but its only practical act was to issue "confidence bonds," which were subscribed chiefly with cheques of questionable worth and the whole issue was immediately declared legal tender. Subsequent issues were made without going through the formality of asking for subscriptions of any sort.

Thus from August 2nd, when Archangel was captured, to September 11th the Allied authorities, ill-supplied with Russian currency (large quantities of which had been stolen by the Bolsheviks in their flight on August 2nd), were making unavailing

efforts to obtain it from bankrupt banks and living in hope of the new notes. At that time trade in the district (including the sale of imports) was held up owing to the doubtful value and bad distribution of what currency there was—for the peasants, who held plenty of money, wanted machinery, etc., which was not yet available—and the Russian Government employees, including the workers on the Murmansk and Archangel railways and at the ports, went without wages. Cash could with difficulty be obtained from banks, even against a cheque on London, and for these the rate of exchange was fixed by local speculators and politicians at 45 roubles for £1, though the real purchasing power of the rouble was depreciating daily. On September 11th a telegram was received in Archangel giving details of the scheme suggested by Mr. Keynes of the Treasury for using the notes which were being printed in London as described above.

The scheme as finally adopted was as follows:—

An Emission Caisse was set up in Archangel, the first President of which was an Englishman. The Caisse is an appanage of the North Russian Government and can become the appanage of any Russian Government recognised by the Allies. It has the power to issue notes in a certain definite way, namely, against pounds sterling deposited at the Bank of England, but up to 25 per cent. of the total amount issued at any one time may be based not on sterling, but on the Treasury bills, or promises to pay, of the local Russian Government. The British Government guarantees that the reserve accumulated at the Bank of England is the inalienable property of the Emission Caisse (not of the Russian Government); in other words, it is the property of the note-holders. The notes are issued at the rate of 40 roubles for £1, and the Emission Caisse undertakes to reconvert any of its notes into sterling at the same rate of exchange. A statement to this effect is printed on the notes themselves; it is an undertaking of the Emission Caisse, based on what banking experience has proved to be safe, and involves no guarantee or liability by the British or Russian Government, though it is stated on the notes that they are secured by the property of "the Russian country." The revenue of the Caisse is derived from the interest received on its balances in London which can be lent out at short notice without endangering the convertibility of the note; for when the notes are presented at Archangel for conversion, the holder is only entitled by law to receive a cheque on the Bank of England for the sterling equivalent, and a telegram can be dispatched to arrive in London before the cheque is presented. At present the

balance at the Bank of England is treated as "foreign money" and receives 4½ per cent.

Although the scheme seemed peculiarly advantageous to North Russia, in that it circulated there good money based on the economically profitless military expenditure of the Allies, it met at first with almost universal opposition. The Russians did not understand it and mistrusted it on general principles. They were particularly frightened of doing anything which their anti-Bolshevik colleagues of the Koltchak and Alexeieff (Denikin) parties might interpret as depreciating the All-Russia rouble. The scheme originally provided for the Emission Caisse issuing new roubles in return for old roubles at the rate of four new for five old—the old roubles being subsequently bought for sterling by His Majesty's Government for use in Siberia. Though this part of the plan was not proceeded with, it encouraged the suspicion referred to above. The American and French Governments were suspicious of the scheme on the grounds that it gave England an advantage such as it enjoys in Indian currency matters (this seems true), and they also objected to anything which might depreciate the value of old All-Russia roubles in which earlier Russian debts to them (and to us) were expressed. Similar objections were also raised in England by various Anglo-Russian groups. Printing in England was delayed by shortage of labour, and the first batch of notes were unfortunately printed without all of the old Tsarist emblems of their models having been deleted.

But the scheme was at last, on November 11th, successfully established. It was brilliantly conceived, and soundly too. The rate of 40 to £1 was chosen because the current rate in Archangel was 45–48, and the new notes could thus be started on a basis comparable to that already existing. Thus when the new roubles were first used to pay wages, workmen could, to start with, be given about the same number of roubles as before, and not much was thereby lost to His Majesty's Government before wages could be reduced to correspond with the greater purchasing power of the new roubles. Moreover, the goods of prime necessity to the district were imported from abroad and were being sold by the British Supply Mission, who could thus at once establish the difference between old and new roubles by selling, for example, an article worth £1 for 48 old roubles or 40 new.

But, in particular, the British were responsible for the expedition, including its finances, and they had their notes ready

printed. Thus the Treasury at home could urge arguments of necessity and the absence of alternatives against the opposition of the French and American Governments, who were finally convinced of the sincerity of our motives.

On the spot Mr. Lindley's Mission undertook the similar task of reassuring the French and American Ambassadors, and Generals Poole, Maynard, and later General Ironside, were always sympathetic towards the efforts of Mr. E. M. Harvey and the present writer. Mr. Harvey did not land in Archangel till October 24th, but he found a reasonable amount of groundwork had been done for him, and meeting at least one familiar face, the unfamiliarity of his surroundings was accordingly reduced. Thus he was able at once to take up his work as first President of the Emission Caisse when its "fundamental principles" were gazetted on November 11th.

For the next five months Mr. Harvey remained as President of the Caisse, and was able to make the scheme, within that time, a definite practical success. The obstacles were not small. Apart from the atmosphere of hostility in which the new notes made their appearance, there were many practical difficulties. The closing ice contributed to cause delays in the delivery of notes, and much of the earlier supply was absorbed by the desolate and undeveloped Murmansk district, in which currency experiments seemed even less hopeful than on the eastern side of the White Sea. Mr. Harvey, however, was able to win the support of the local French and American representatives, to thwart as far as possible opposition among those who controlled local finance and the State Bank, and finally left the Caisse to his successor in sound working order. His Majesty's Government had agreed to purchase for sterling 100 millions of the new roubles during the first four months. These were handed to the British military authorities for their needs. By February, 1919, even the peasants could be seen making the proper distinction between the value of old and the new roubles, and the shops in Archangel were quickly doing the same. Deprived of the unnatural support which the Allies had been forced by speculators to give it, the old rouble began to find its true level. By December, 1918, the exchange rate was 60 in Stockholm; by June, 1919, it had reached 80 (or 3*d.*) in Archangel and in Siberia 160 (or 1½*d.*). The population of North Russia became the holders of over 100 million roubles of good money, and the Allies were paying their way as easily as a similar army on manœuvres in England. English (or French or American) merchants who wish to buy goods in North Russia

can obtain the necessary currency in Archangel by paying the sterling equivalent to the Bank of England. Those who wish to sell goods in North Russia can, by insisting on payment in new roubles, be sure of remitting the money here through the Caisse without fear of loss on exchange. It is a matter of recent experience as well as common knowledge that the lack of such a stable currency makes it almost impossible to trade with South Russia, and no doubt with similar areas elsewhere. Moreover, the 25 per cent. of the issue which is allowed by law to be fiduciary provides a means of financing a Russian Government, which recognises its lawful obligations, to an extent which is not unreasonable, and which at the same time involves the Allies in no expenditure whatever.

Small as the experiment of the North Russian currency may seem, it is the only scheme that has actually been put into operation with the object of giving to an economically distressed area a stable currency available for foreign payments. Its success may well have been due not only to its relative smallness, but to certain specially favourable conditions. The existence of an expensive military expedition in North Russia made it possible for the British Government to give the scheme an excellent start by purchasing with sterling a good quantity of the new currency without this operation costing more than the expedition (decided on for political reasons) would anyhow have been costing. The dependence, too, of the district on imported goods for the necessities of life made it easy for those who controlled those goods to control the currency. Finally, while it appears, from what took place, that the scheme could hardly have been put into force as an Inter-Allied scheme, only the fact that the British were responsible for the whole Allied military expedition, which was at one time seriously threatened with something like disaster by currency difficulties, enabled the British Government to overcome the first opposition of its Allies.

The Russians seemed to Englishmen on the spot, at the time, peculiarly foolish from their failure to appreciate the advantages conferred on them by the scheme. But in considering the applicability of the scheme, or something like it, to districts which may be in a similar position, one perhaps must bear in mind that ignorance of economics and a reluctance to do anything which might in any way tend, or appear to tend, towards depreciating the existing currency may (except among debtors) be found in other places besides North Russia. It should also be observed that the local Russian Government was not merely provincial, but

contained anti-Bolsheviks from all parts of Russia, and was regularly in touch with Admiral Koltchak, M. Tereschenko, and others.

The advantages secured by this scheme, which has made a very important difference to the trade and general prosperity of North Russia, as well as to the power of the Allies in that region, are those which one would expect to attach to the reappearance, after an interval, of a stable currency. But that is all it comes to; while there is no risk of loss under this scheme, there is no chance of gain by acquisition of the currency in exchange for exports or foreign credits. The North Russian rouble is worth 6*d*. (whatever 6*d*. is worth) and can never in all human probability be worth anything else. Therefore the North Russian scheme does not recommend itself for wider use in the eyes of those who think that an appreciating currency is one of the greatest factors in causing the recovery of a distressed country. It has also been objected by an eminent Russian financial expert, among others, that while the scheme is well adapted for the re-establishment and promotion of Russia's international trade, it is of relatively little use for internal trade; to which it might be replied that in the areas now devastated, international trade is the first thing necessary to reconstruction. In any consideration of the possible adaptation of the North Russian currency scheme to other districts, there are four further points which cannot be ignored. First, if notes are to be secure against forgery (the North Russian notes are very sound in this respect) they will take many months to print, and the printing will cost at least 1 per cent. on their nominal value, or about 2½ for each actual note, apart from the costs of shipping, insurance, etc. Second, the fiduciary portion of the North Russian issue, as stated above, can only amount to 25 per cent. of the total outstanding at any one time, the remaining 75 per cent. being based on the reserve at the Bank of England. Seventy-five per cent. is a higher proportion than safety requires a reserve to reach, though it is probably inadvisable to encourage persons of a temperament anything like the Russian to base their ideas of safety on any lower proportion. But this figure gives a margin for expansion if necessary. Third, the Bank of England cannot indefinitely increase its foreign liabilities, such as a reserve held as the inalienable property of a foreign Emission Caisse, without very serious consideration of the international financial situation as a whole, and in particular of the prospective balance of trade between England and the country in which the notes are

issued. Fourthly and finally, the North Russian note issue does not provide (nor impede the provision of) a means of settling in roubles Russia's indebtedness to foreign countries as it stood before the Bolshevik Government obtained control of the machinery of currency. But whatever the limitations of the scheme may be, it is one which must and does command the admiration of those who, far from London where it was devised, have had the privilege of initiating and operating it.

D. SPRING RICE

July, 1919.

THE INDUSTRIAL SITUATION.

We find to-day two irreconcilable points of view with regard to the industrial situation. We have the point of view voiced by Mr. Arthur Henderson, that Capitalism and private enterprise have proved a complete failure, and we have the view of almost the entire business world, that if Capitalism has its drawbacks, it is yet a system which we cannot even hope to dispense with.

The apologist for our existing order, if he confines himself to one aspect of things, has a sufficiently easy task. Individual enterprise on the competitive system in one respect has not proved a failure—it has been a brilliant success. It has achieved marvels of organisation, performed miracles of production. Every element of the physical universe has been conquered, no obstacle presented by Nature has ever daunted the genius of the industrial climber. The impossibilities of one generation become the common-place realities of the next. The only failure that can be charged to the account of private enterprise was its inability to cope with the requirements of the European War. But this proves too much, and social reformers should be wary of pressing the point. If private enterprise proved itself inadequate, so did Trade Union regulations, voluntary military enlistment, and finally personal liberty in almost every detail of life. The failure of Capitalism in this connection is nothing to its discredit.

The apologist of private enterprise might carry the war further into the enemy's camp. He might argue that it was the business of industry to organise for peace, not for war; that war was economically unsound, and that the enormous achievements of war industries under Government control could have no permanent foundations. These, however, are side issues. It remains incontestable that in regard to material results private enterprise as a system is almost invulnerable. Its failure is on the human side. The world is full of wealth and beauty, of the opportunity for leisure, health and enjoyment. Yet each member of the army of producers is doomed to a life of monotonous toil in ugly surroundings, for so inadequate a reward, that all are standing up to-day as one man to condemn the system.

The most disheartening feature of the industrial struggle is

the fact that the two opposing parties do not seem to meet at any point. Each seems entrenched behind the ramparts of its own prejudice. The adherent of the old order sees nothing but an admirable system which it would be futile to disturb; the reformer can see nothing but injustice so intolerable as to call for the wholesale destruction of the entire social order. In his view the poisonous power of Capital bulks so large, that the single word "Capitalism" is used to sum up all the intricacies, social and industrial, of our world, in one sweeping term of condemnation. And everyone who approves of, or profits by, the existing system belongs to the capitalist or to the middle classes. No very exact definition is given of the latter term, but it quite adequately covers all the persons who look at industrial questions from one particular angle, who share the belief that the division of classes as it exists to-day, is natural, fundamental, and inevitable. The plain man of the middle class seldom finds it necessary to justify his position, since he rarely meets anyone who will question it. The facts are there, patent and incontestable. Here are the upper and middle classes—persons of position, education, knowledge, and capacity. It is natural that they should possess wealth and leisure, and the opportunities to acquire more wealth and additional leisure. And there are the people—the hewers of wood and drawers of water. It is natural that they should earn, by hewing and drawing, enough to keep themselves and their families in being. It is perhaps regrettable that they cannot share in the advantages of wealth, leisure, and opportunity, and anything that *can* be done to alleviate their lot—anything in reason—should undoubtedly *be* done. But, of course, their poverty, besides being natural (have we not the best authority for the statement that the poor are always with us) is really their own fault. Every employer knows that there is ample opportunity in *his* service for the steady, capable, hard-working man to rise. He can never get enough competent over-lookers and foremen. If a man remains at the bottom of the ladder, clearly it is because he does not deserve promotion. And there is no finality either about being a foreman. Has not every private the Marshal's bâton in his knapsack, and did not he himself begin . . . etc., etc.

Within the limits of this class, there is a wide range and considerable diversity. We find at one end of the scale the elderly millowner who will not hear of any change—"Rank Socialism, sir, rank Socialism, rather than allow that I'd close my mill"; at the other end, the progressive young employer who welcomes welfare

workers and Whitley Councils, and deals frankly and honestly with the officials of his men's Union. But even between these two extremes, there is no difference in standpoint, for all subscribe to the view that whatever you may do with the details, the ground plan of industry must remain what it is to-day. If they were inclined to philosophise, they would probably say that it had developed by inherent necessity from the nature of men and things.

Where the middle-class man sees a necessity so fundamental that it is hardly worth while to waste regrets on it, the intelligent working man and his advocates see nothing but a deliberate system of expropriation. Capitalism means purely and simply the exploitation of the wage earner. One of the ablest exponents of the new ideals always refers to the workers as the "dispossessed." The worker is frankly and uncompromisingly Marxian. All wealth is the produce of labour, and the reward of labour is withheld from the working man by the tyranny and rapacity of the employer, who somehow has possessed himself of the instruments of production, and thus gained the power which he wields so unscrupulously. Precisely how the employer has acquired these instruments, our reformers do not trouble to enquire (for they do not search after origins much more industriously than their middle-class counterparts), but as these instruments were also produced in the first place by labour, so in equity they too belong to the worker, or, at any rate, to a succeeding generation of workers. By labour the Marxian meant manual labour pure and simple, but the Trade Unionist of to-day has travelled beyond that standpoint. The latest manifestoes are addressed to all "workers by hand or brain," and it is probably not suspected how much has been given away by the addition of the last two words. Mr. Orage, in his description of Guild Socialism, makes it clear that he admits brain-workers to salvation, and incidentally deplores—and wonders—that the brain-worker employee generally allies himself with the capitalist.[1] Actually the brain-worker is often not only allied but identified with the capitalist. One might imagine, from the writings of some reformers, that our industrial concerns sprang into existence ready-made to the last shaft and pulley, and that the capitalist thereupon supervened and took command. In the early days of

1 Mr. G. D. H. Cole (*Labour in the Commonwealth*) maintains that the brain-workers' real interest lies with Labour rather than with Capital, and urges them to shake themselves free of their gilded chains, and throw in their lot with Labour.

every concern, the founder who began in a small way was often the only brain-worker, the owner of the brain which designed the whole edifice. In larger industrial undertakings, the brain-worker frequently either has a share, or aims at obtaining one. In any case, he hopes to make a much better position for himself than any that labour has hitherto been able to secure, or—he shrewdly suspects—might be willing to concede him, if it had the deciding voice.

The question for the impartial person to-day, the problem which must be solved unless civilisation is to perish, is how to bridge the gulf between two irreconcilable positions, how to keep what is of value in the old order, while making room for the new.

The first essential is the abolition of destitution and of great fortunes; there can be no toleration of the existing extremes of poverty and wealth. We must disabuse our minds once and for all of the idea of regrettable necessities. Industrial conditions are of our own making, and there are no necessary evils. Our productive powers, in this twentieth century, are sufficient to provide much more than the mere necessaries of life for every man, woman, and child in the country. Further, these can be provided without exhausting hours of work, and without the labour of children.[1] Then Society and Industry must be so organised that every man, woman, and child shall have more than the necessaries of life, that none shall work to the detriment of physical, mental, or moral welfare, or be haunted by the fear of unemployment. It is a matter of organisation, and the organisation must be forthcoming. If Communism alone could achieve these modest ends, then it must be Communism. Long ago, John Stuart Mill came to this conclusion :

> "If, therefore, the choice were to be made between Communism, with all its chances, and the present state of Society, with all its sufferings and injustices . . . . if this or Communism were the alternative, all the difficulties, great or small, of Communism would be as dust in the balance."[2]

Mill, however, was not of the opinion that this drastic remedy for the evils of our social system was the only possible one, and

1 It would be laughable if it were not pitiable to hear the old arguments on these questions repeated by one generation of employers after another. The industrialists of the early nineteenth century succeeded in convincing themselves and others that their trade (and incidentally the country) would be ruined if they were not allowed to employ children under eight years of age for twelve or fourteen hours a day. In 1916 the worsted spinners and manufacturers of Bradford persuaded the Education Committee temporarily to reduce the school-leaving (and factory-entering) age from fourteen to thirteen, in order to enable their export trade, so essential to the finances of the country, to carry on.

2 *Principles of Political Economy*, Bk. II., Chap. I., Par. 3.

he contended that the *régime* of individual property, as it *might* be made, would be preferable to the dead level of Communism. All the instincts of the educated person have a trick of recoiling from the dreary prospect. Even the theorist who believes that he has ceased all truck with the system he condemns, sometimes comes to a point where he parts company with his Socialist friends. Mr. Bertrand Russell, for instance, who condemns Capitalism root and branch, would rather adhere to the old wicked system than submit to a form of State control which might destroy the initiative of the artist and the poet.[1] But he concludes that we need not put up with State Socialism, we can adopt Guild Socialism, and save our artistic souls. Many a rich young man who would enter the Kingdom of Heaven, is torn by conflicting emotions. He looks with agonies of anxiety at the achievements of civilisation, and asks if a new system will not endanger all that makes our lives worth living—art, letters, and learning, education and gentle manners, beauty and the appreciation of beauty in every form. The consistent Marxian is not troubled with any such doubts, or restrained by any such scruples. And he is perfectly justified, for all these delights the working population—that is, the majority of mankind—have never had the least opportunity of enjoying. It is immaterial if they go—"the worker has nothing to lose but his chains."

A more moderate reformer recently stated[2] that the system of private enterprise, though wrong, had "been created constitutionally," and "could only be improved in a constitutional manner." We might go farther, and admit that the system had developed on lines suited to the progress of industry in that age; that incidentally it had rendered service to mankind, and that only because it rendered service, did the system develop and survive. The political economist of the old school very naïvely explained that our industrial system was so admirably adjusted to its ends that by serving his own interest, the merchant or manufacturer, or what not, incidentally (if unconsciously) served the best interests of the community and *vice versa*. This was the kernel of the theory of free competition, and the survival of the fittest in the realm of industry. We have lost these early illusions. We must, however, maintain that the capitalist system of private enterprise has rendered, and still renders, certain services. The running of an industrial concern, still more the

[1] *Roads to Freedom*, by the Hon. Bertrand Russell.

[2] Mr. Sexton, Labour M.P. for St. Helens, in support of the Amendment to the Address in reply to the King's Speech, House of Commons, February 13th, 1919.

starting of it, involves an act of creation. Every concern existed in the brain of its founder as a scheme, a hope, an ambition, a dream before—perhaps long before—it was realised. None has sprung spontaneously into existence. When "A" starts a small works with his savings, when he hires a shed, purchases a few machines, engages a few workmen, draws up a scheme of work, perhaps adapts existing machinery or devises a new process, and finds a market for the product, he does actually bring into existence something which was not there before, and of which the world is in most cases very glad to avail itself. When Mr. Cole takes our industrial system as it exists to-day, and analyses it into (1) manual workers, (2) technical workers, and (3) foremen, or manipulators of men, all equally "dispossessed" by the employer, and assumes that all would get on equally well without him, he appears to leave out two elements, the creative and the synthetic forces, which first brought the concern into existence, and made and make it a workable whole.

The main service which the capitalist has rendered has been the building up of values. The "abstinence" of the rich employer has been very much derided, and in vain economists have pointed out that by abstinence they did not mean abstemiousness. It is no doubt easy enough to "abstain" from consuming, when one has a considerable surplus to abstain with. It may involve no sacrifice, and there may be nothing in it morally creditable to the capitalist. Nevertheless, this despised abstention has made possible a considerable amount of planning, organising, and extending, and the capitalist has rendered actual service by so doing. If he had not done it, it would not have been done. There is no denying that, faulty as our arrangements are, a highly developed commercial community possesses much wealth useful for productive purposes, which a country less capitalistically developed does not possess.

We can admit all the considerations for the capitalist employer, and admit them to the hilt, without in the least prejudging the case in his favour. It does not follow either that the capitalist may not be getting—may not at all times have got—far more than adequate reward for the services rendered, or that he may not have fulfilled his part, that we may not have reached a stage in our development where he has no further services to render, and can be dispensed with.

The principal objection to the remuneration of the employer under a system of private enterprise, is that profits are often so very much out of proportion to the services rendered. There are

normally three ways in which a capitalist can amass a very large fortune—we are not speaking now of the earning of a moderate income. He may exploit his employees, or he may fleece the public, or he may actually offer the community something which no one else can offer, and for which the community is therefore glad to pay his price. The majority who get very rich, obviously would not do so if they paid higher wages to their workpeople, or charged lower prices to their customers. They might pay higher wages and charge lower prices, and content themselves with a more moderate profit. Where competition is keen this actually happens, and the public is well served, but the tendency to increased combination among employers is against the public in this respect.

A man may render service to the community and at the same time build up a very large fortune by means of improved methods of working, by the utilisation of a waste product, or by the introduction of some new device which the public is willing to pay for. But even if the public benefits by his improvement, it is difficult to estimate the exact value of the capitalist's services, and to see why he should be entitled to the whole of the return that he is able to obtain. The benefit which he confers may serve to obscure the fact that he is definitely levying a tax on society. Nevertheless the tax is a real one, the lowering of the price of the article sold might be a public boon, and there is obviously a limit to the remuneration which even genius should be allowed to command. When there is no unusual service rendered, no new method or process invented, no utilisation of waste products introduced, large profits can clearly be made only at the expense either of the employees or the consumer, or both.

As soon, however, as we leave the solid ground afforded by the old theory that the capitalist employer is entitled to whatever profits he can wring out of an unresisting public, we are left without any basis for the settling of his remuneration. We are up against the further difficulty that the employer will never, if he can avoid it, disclose what his profits are, or what relation they bear to his expenses. The law which ordains that a limited liability company must publish its accounts, would gain greatly in value if it stipulated that the accounts should be published in an intelligible form, should reveal what the company paid in wages, and how many employees shared these wages between them.

The employer will never lay his cards on the table. The obvious conclusion is either that he feels that his profits are

greater than his deserts, or that he fears other people may think so. He explains this to himself, and, if need be, to others, by dwelling on his past sacrifices, on the risk he has taken and still takes, on the losses he suffered in building up the business, for which he is entitled to recoup himself. All this is quite true and legitimate; but even so, the cards are not on the table, and it is difficult for the business man to be really honest with himself. At which point, losses having been made good, does he think it incumbent on him to cease making the largest profits obtainable? At what stage in his career does he conclude that having obtained a competence, he might begin to practise virtue? And exactly how does he, or, for the matter of that, how can we arrive at a just estimate of his value to the community? The founders of Chairs in our Universities expect to command the services of the very finest intellects for £1,000 a year or less, but a Yorkshire manufacturer of small beginnings and no education, will not necessarily think himself sufficiently remunerated by ten times that figure.

But the capitalist system, like the Thesis of a Hegelian trilogy, has brought with it its own corrective. Capitalism has called into existence the Trade Union movement. Day by day the Unions increase in power and influence, and practically every step in their progress is conditioned by some inhumanity, some stupidity, at the best some short-sighted blunder, on the part of the employer. An impartial observer of the world of industry cannot fail to be reminded of the old adage, that whom the gods wish to destroy they afflict with madness. Nothing short of madness can excuse the employers, in the light of their own interests. The *Times* stated, some time ago, with a fine show of impartiality, that if we had had no bad employers, we should never have had militant Trade Unions. The statement, of course, was tinged with regret. But the social reformer naturally shudders at the idea of a world regulated by the fiat of a set of perfectly benevolent employers.

In his Union the working man has learnt lessons of self-restraint, of self-government, and of sacrifice for the common good that he could never otherwise have had an opportunity of acquiring. His Union is his great education. The rise of the Trade Union movement, its splendid idealism, its appeal to the unselfishness and public spirit of its members, no less than its material achievements, stand out like a great romance in the sordid annals of our industrial life.

The system, of course, is not perfect. Mr. Cole is inclined to find the Unions too conservative, and somewhat lacking in

imagination.[1] Organised working men have obtained a status, even if a poor one; below them is the abyss, into which at all costs they do not want to fall. Therefore they are not so anxious as a more drastic reformer could wish for wholesale changes in our industrial organisation.

The main weakness of the Trade Union is the tendency for the centralised government to lose touch with the rank and file. The successful Labour leader, especially after some years of Parliamentary experience, is liable to lose favour with his Union. He has ceased to be quite as drastic, at any rate with regard to immediate action, as some of his constituents. Mr. Bertrand Russell puts this down to the "subtle and almost unconscious influence of educated men," which "is apt to sap revolutionary ardour, producing doubt and uncertainty instead of the swift, simple assurance by which victory might have been won."[2] It is only necessary to read the criticisms of, say, *The Call*, or listen to the comments of some rank-and-file Socialist on the "top-hatted and black-coated gentlemen" whom he has helped to send to the House of Commons, to see that there is often a real loss of sympathy between Labour and its leaders. The leader has recognised that there is another side to every question, and that industrial and social problems are more complex and less easy to solve than his former colleagues are inclined to believe. Perhaps he has even come to recognise that though employers are practically always in the wrong, it may be that workpeople are not always in the right. This would, no doubt, sap his revolutionary ardour.

The shop steward, on the other hand, is hampered by no general knowledge, and his revolutionary ardour has full scope. It is too early as yet to pronounce judgment on this movement, which the general public only knows for its turbulence. On the face of it, the shop steward would seem to be not only a necessary product of the Trade Union, but an ideal link between the central committee and the individual members. The committee obviously cannot get inside experience of every "shop," and all the individual workers can hardly have access to the Union officials. There would seem to be no better link than the shop steward.

The practice, as usual, is apt to fall behind the theory. One of the difficulties of the shop steward's position is that he serves two masters. The Trade Union secretary is an independent

[1] See *Labour in the Commonwealth*, by G. D. H. Cole.

[2] *Principles of Social Reconstruction*, by the Hon. Bertrand Russell.

person who meets the employer on equal terms, and can afford to respect both himself and his adversary. The shop steward is actually in the employer's pay, and can only do his stewarding, whether peaceful or otherwise, in the time for which he is paid by the employer. Consciously or unconsciously, he is bound to resent the position.

The profession of shop steward suffers from further disabilities. In our modern industrial system, the capable and ambitious man can generally obtain some sort of promotion. He can become a skilled specialist, if his ability is mainly technical, or an overlooker, foreman or departmental manager, if his ability is more general. If he is an unselfish enthusiast he will probably wish to be a Trade Union organiser. It is at least probable that the ablest men will not become shop stewards. Revolutionary ardour without much solid backing, a talent for rhetoric, and the ability to attract the attention of men who are not inclined to do their own thinking, are likely to be the shop steward's main qualifications.

But whatever the methods by which the Trade Unions may eventually solve their internal problems, the Unions are the only practicable stepping stones for a peaceful transition from the present industrial system to something better. Two achievements stand to their credit; they have produced statesmen, and they have devised an honest, fearless, and constructive programme. We do not find in the policy or in the speeches of the more fortunate classes anything to match the spirit of practical Idealism, the true and far-sighted striving for the public good, that breathes in every word spoken by our greatest Labour Members to-day. Here are no reservations, no *arrière-pensées*, for there is nothing to conceal; there are no inconvenient facts to gloss over; above all, no indispensables—hereditary or financial—to conciliate. Their aim is a good life for the masses of the people, and almost every item on their programme goes to the heart of the matter.

One of the first demands of the Labour Party is the nationalisation of mines, railways, canals, and of land. With regard to the first three, it is clear that these services have now reached a magnitude and complexity where public control becomes a necessity; the importance of the interests served, and the vast number of persons employed makes the industries unsuitable for private enterprise. The miners, the railwaymen, and the dockers are convinced that this way salvation lies. They are not economists, but they know exactly where the shoe pinches, and their judgment is likely to be sound. There is as much justifi-

cation for the nationalisation of railways as there could ever have been for the establishment of a national Postal Service.

The demand for the immediate nationalisation of all industry, concurrently with the abolition of private capitalistic enterprise, is a different matter. The transition between the old order and a better cannot, without serious danger to the community, be a rapid or violent one, and the demand that the worker, without either the necessary education or experience, should immediately take over the entire control of industry, is an invitation to disaster. Nor is it safe, whatever their past and present wrongs, to assume that the proletariat have a monopoly of all the virtues. There is no doubt more idealism in a chapter of Trade Union history than in a whole library of records of capitalistic achievements. The Trade Union has the inspiration of wrongs to fight and sufferings to redress. To work for the raising of the masses is more inspiring than to strive to keep them in their places. To create a new world is a nobler ideal than, with one's head in the sand, to defend a privileged order. The worker has, at any rate, a cleaner start. But human nature is very much akin, and the noble ideals of the social reformer are perhaps not quite so universal as he would have us believe.

We must pin our faith to evolution, not revolution. Capital has already measured its strength with the Trade Union, and been defeated. It is fast losing the attribute which makes for the most evil—the power that it wields over the lives of the workers. Deprive it wholly of that power, and the sting has gone out of the system. The details of our industrial life are being rapidly reorganised on a new basis by the driving power of the Trade Unions. A minimum wage for all workers and a reasonable working day are the first essentials, and the next the securing for the worker of a legitimate share of control over conditions of work and processes. Details must vary, but there should be no difficulty in any industry run on sane lines, so to apportion the control as to secure beneficial results for all concerned. The problem of unemployment cannot be solved by industrial measures alone. Defects in housing, sanitation, and upbringing, are all largely responsible, though the main fault lies in the callousness which has allowed nearly every industry to rely on the existence of a large reservoir of unskilled labour, which can be tapped at need. While improvements in social organisation aim at eliminating unemployables, each industry must make itself responsible for the whole number of people whom it employs at any time.

When a national minimum wage has been established, when factory life has been made decent and its conditions bearable, when child labour with all its evils has been abolished; when land and the great public services have been nationalised, and monopolies have disappeared; when profiteering, as distinct from the earning of moderate profits, has been eliminated, and the workers have obtained joint control of industrial processes, we shall have scaled the first height in the path of progress, and gained an eminence which will afford a wider view. A new spirit will have come over industrial life. The amassing of large private fortunes will have become impossible, and the stimulus of great monetary reward will have been replaced by the ideal of service to the community. At this stage we may hope to have dispelled the great mass of prejudice in favour of the old order on the one hand, the extreme bitterness and desire for upheaval on the other hand. In happier circumstances, and with clearer view, we shall be better able to discern what is to be the next step forward.

HÉLÈNE REYNARD

A PLEA FOR A GREATER ECONOMIC DEMOCRATISATION

I.

PERHAPS no war of the past can boast of having been, in its results, more revolutionary than that out of which we have just come forth. This at least is what is stated by the most diverse parties. The cause of this primacy is to be found in its origin and modes of development. In fact, the war appeared, from its very beginning, to be the direct consequence of Teutonic imperialism, which in its turn was the fruit of the great economic development of Germany, so that the capitalistic *régime*, as such, has been rendered responsible for the war. It has been, at the same time, more than any other, a real war of nations, in which the whole of each belligerent people took part. It has represented, by its duration, its extent, the human and economic losses, the burden of sufferings and sorrows that it has brought upon the world, the greatest effort and the greatest sacrifice that humanity has ever had to bear. Moreover, the long duration of the war, the need of urging on to resistance both fighting and working men, have rendered it necessary, in all the belligerent nations, to make appeal continually to social solidarity, to remind the great masses every day of their supreme importance for the life of the collective organism, to set forth the high aims of the conflict—liberty and justice for all peoples and all classes—and so to give the poorer classes an idea of a well-deserved prize after the victory. Accordingly, no revolutionary propaganda has ever done so much as this war to awaken the popular and working classes to a higher and fuller collective consciousness. Further, the *régime* of capitalistic production, which already before the war showed signs of weakness, has during the course of the war undergone so great a strain that it cannot hope to regain its former strength.

That not only in the countries of the vanquished—where the revolution, if successful, cannot but have a great reflex influence all over the world—but also in England, in France, in Italy, and by contagion even in the neutral countries, everywhere is to be seen a revolutionary ferment. In presence of this and of the very difficult conditions, which we shall examine later, in which the war has placed the capitalistic economic *régime*, the problem

arises whether it be in the interests of the bourgeoisie to defend all its class rights, and thus incur the danger of a violent Bolshevik revolution, which would represent for all the countries of the world and all the social classes a catastrophe a hundred times worse than the war; or to come forward itself, so to speak, to meet the chief desiderata of the working masses, so as to open the way for a peaceful and legal transformation, radical though gradual, of the economic order, which would succeed in modifying in the direction of greater justice the distributive process, without violent and disastrous crises in the productive process, or, rather, with an increase in the output of the latter. This is a programme of high and clear-sighted policy, which could and ought to find favour with all the democratic parties, from the Radicals and the most advanced wing of the Liberal Party to the reformist Socialists, and even to the right wing of the advanced Socialists.

Economists, politicians and the Press vie with each other in pointing out in what very difficult conditions the present economic *régime* is placed after the effort made during the war. It will be impossible, for instance, to obtain from the enemy indemnities which will suffice not only to pay the compensations, but also to extinguish the war debts. Now, if it is true that the capitalists who have lent their money to the State have been among the greatest coefficients of victory (and it would be, at any rate, impossible and unjust to make a distinction between their rights and those of the capitalists who have preferred other forms of investment), the fact still remains that Treasury or State bonds only represent the right to an enormous deduction from the yearly social production without the capital represented by them, which no longer exists, contributing even in the smallest measure to the production of wealth. In the same way the war profits, even though very high, may be justified to a certain extent by the need which all the belligerent peoples have had to multiply the productive activity of the nation, for which purpose the attraction of normal profits would certainly not have been sufficient. This, however, does not alter the fact that the new immense fortunes produced by the war, besides the pernicious psychological effect which they have on the working masses, constitute a formidable demand for all kinds of means of enjoyment, so as to make the economic production turn, even more than in the past, from the articles of first necessity, or of great utility, the need of which is now felt more than ever, to the manufacture of articles of luxury, less useful or even quite useless.

What would be most urgently needed to-day, after the enor-

mous destruction of capital perpetrated by the war, would be to spur people on to work, and to willing, brisk, highly productive work, and to urge them at the same time to save and accumulate new capital as soon and as much as possible. Instead of this we see the working classes not only requesting and obtaining everywhere the reduction of the day's work to eight hours, and the Saturday afternoon off as in England, and already preparing to ask for further reductions, but we see them doing more and more unwillingly the work by which they no longer want, as they say, to swell the profits of the capitalists. At the same time the new greater inequality in the distribution of wealth, while it makes it more and more difficult for the impoverished middle classes to continue at the same rate the beneficent function of saving, which fell chiefly to them, deprives the new large fortunes, just because they are too large, of every incentive to further saving. To all this must be added the new rates and taxes of all kinds, which constitute so many impediments both to production and saving.

The States which have already a Socialistic Government, as Germany, and those which are still *bourgeois* but are willing to grant the greatest concessions so long as they can avert the Bolshevik danger, such as England, hope to solve the crisis, which is economic, social and political at the same time, and to bring in a new *régime* which will satisfy the aspirations of the working class, by the nationalisation of given industries, of given productive forces—land, mines, railways, etc. But the capital necessary for taking them over will only increase the public debts, and the nationalisation will not solve any of the problems, because the State will deduct from the yearly income by the taxes needed for paying the interests of these new loans, more or less the same amount as the private proprietors of these instruments of production deduct to-day in the form of dividends.

A good effect in the desired direction would only be obtained if these properties could pass *gradually* into the hands of the State without the need of any indemnification. I say *gradually*, for there is no need of insisting on the immense economic convulsion, disastrous for all classes of society, but especially for the working classes, which would be brought about, if the transfer were to take place too rapidly, by means of a violent Bolshevik expropriation.

It cannot be denied, in fact, that certain capitals, certain means of production, *once they are created by private initiative*, can be without difficulty *administered* by public bodies, such as

the State, the province, or the commune, even if the activity of these public bodies is less effective than the private initiative; they consist, in general (except those of the State Treasury bonds, the administration of which, when nationalised, would consist in . . . destroying them) of all property which can be *let*, such as houses, lands, mines, great factories, and so on. At the same time one cannot deny the value of the principle held by the liberal economic school, which affirms that collectivist production carried on directly by the State, that is by bureaucrats on bureaucratic lines, would be a disaster, and that therefore economic production should be left to free private initiative, more active, more brisk, infinitely superior because of the spur of personal interest which urges it on.

Thus it would seem that the solution of the problem is to be found in leaving the production of goods and the accumulation of new capital to private initiative; and, indeed, in seeking to encourage, more than is done to-day, the love of work and the tendency to save, and in giving the actual possibility of saving to an ever greater number of individuals; while at the same time finding means to make certain properties or instruments of production which are best adapted to be carried on by public bodies pass gradually, by a continual and automatic process, into the possession of the State, without any need of having recourse to violent revolutionary expropriations on one hand, nor to the system of indemnification on the other. This is what we propose now to examine in the second part of this article.

II.

Everybody is repeating that for it to be possible to overcome the very serious difficulties in which the war has placed the economic life of all the belligerent nations a new finance is needed. But this has yet to make its appearance. On the other hand it would be underrating the gravity of the economic and social crisis, under which the capitalistic *régime* of production and of the distribution of wealth is labouring, to think that mere financial measures can be sufficient to solve it. Several years ago, in our work, *Di un Socialismo in accordo colla Dottrina Economica Liberale* [1] (A Socialism in accordance with Liberal Economic Doctrine), we inquired, as the title itself says, whether there was

[1] Fratelli Bocca, Turin, 1901; French edition, Giard et Brière, Paris, 1904; pamphlet for propaganda, *La question de l'héritage*, Soc. Nouv. de Librairie et d'Edit., Paris, 1905; German edition with preface by Edward Bernstein, Wigand, Berlin, 1907 and 1909.

not some way of conciliating, at least from the theoretic point of view, certain indisputable truths of the Liberal economic doctrine with the fundamental, and in our opinion not less just, criticism which, on behalf of righteousness and of social welfare, Socialism brought and brings against the capitalistic *régime*. If here we take the liberty of recalling conclusions then come to, it is because the very gravity of the crisis which threatens us, and the urgent need of putting ourselves on our defence, invite us to inquire whether those conclusions might not be capable of passing over from the field of mere theory into that of practical application.

If we start out from the principle of Bentham and Stuart Mill that the justification of every human institution, and therefore even of the right of property, must be exclusively found in its social utility, the question presents itself whether it would not be in accordance with justice to modify the right of property regarding the right of bequest and of inheritance, so that, though urging to labour and saving, it may grant to the right of property only the duration *strictly necessary and sufficient* to ensure the effectiveness of this stimulus, after which the capital and goods accumulated would pass into the possession of the State; in the same way as the patents which last only the time necessary to spur the technicist on to new inventions, after which the invention itself becomes public property.

For this purpose, first of all, we must consider the charges which the State deducts from successions, no longer as taxes, but as a share which the State takes in the property of the deceased, and fix these dues in such a way as will ensure nationalisation with that grade of rapidity which is considered most opportune, and at the same time will not weaken the stimulus to saving, but on the contrary will make it *much stronger than the present full and entire right of inheritance and bequest does to-day.*

Up to the present time the principle of progression has been applied to the taxes and dues relating to succession on two different lines: according to the amount of the patrimony and according to the degree of relationship. But there is a third line which is equally capable of progression, one which relates to what we may call the *age* of the different portions of the patrimony left by the deceased, or, more exactly, the *number of transfers* by succession or donation, which the different portions of the patrimony have undergone before coming into the hands of the present testator. According to this *progressiveness in time*, the right of the testator would differ according to the different parts

of his patrimony, so that it would be exercised totally, or almost totally, on the wealth accumulated by his own work and his own saving, in a considerably reduced measure on the wealth inherited by him, and in a more reduced measure the farther, by repeated transfers, were its origin. Of course, this division of the patrimony into several parts, according to the number of transfers undergone by it, would be made only from the *quantitative* point point of view, that is, of the value expressed in money, each part of the patrimony inherited or created being capable of assuming the most varied forms of investment.

Once the patrimony left by the deceased were divided thus, quantitatively, into different parts, the State would only levy the same dues, for instance, as it does to-day, from the part due to the labour and saving of the deceased himself; but from the part which the deceased has inherited directly from his father the State would levy much greater dues, for instance, 50 per cent., and from the part which comes to him from his grandfather still greater, very great, even 100 per cent. (which would make it sufficient for every patrimony to be divided into only three parts, as nothing could be inherited that had been accumulated by one's great-grandfather). We hasten to add that, once this sort of progression were introduced, all the present possessors of capital should —both for reasons of justice and because it would be impossible to go into the furthest origins of the patrimonies existing to-day— be considered as having themselves accumulated the whole of the patrimony which they possess to-day, or at least, for instance, three-fourths or two-thirds of it. The high dues therefore would begin, in the first case. only at the death of the present capitalists' heirs, as to whom it would be easy enough to distinguish between the part inherited from that added by them, and, in the second case, at the death of the capitalists living to-day, but only on a small portion of their patrimony. But considering the immense benefit which this reform would ensure for the public finance in a future, which even in the first case would not be too far distant, it could be partly *discounted* from now, so as to allow the *immediate* actualisation of those social provisions which can no longer be put off, and even to make it possible to diminish a large part of the new taxes, especially those destined to cover the payment of the interests of the war debts.

There is no need to spend many words to prove how much more effectively such a reform would impel people to save, as compared with the present right of bequest full and entire. In fact, as regards one's own children, every sum saved by the heir

of a given patrimony would come to have, in his eyes, a *much greater value, even three or four times greater*, than the same sum inherited by him; whereas to-day the heir of a great fortune is not much inclined to increase further the patrimony which he has inherited, for, as it is more than sufficient for him, he thinks it will be the same for his son.

The State, as a co-heir, to the amount of 50 per cent., on the goods which have undergone a transfer by succession or donation, and to the amount of 100 per cent. on those which had already undergone two transfers, would take the part which would pass to it, not in money, but *in natura*, like the other heirs; land properties, buildings, State and Treasury bonds, shares in limited or other companies, and so forth. The extinction of the public debts on one hand, which would free the State from the enormous burden of the payment of the interests, and on the other hand the rents of the lands, of the dwellings, of the buildings in general, gradually nationalised (the administration of which could be entrusted to the respective provinces and communes, and eventually even to the same companies which to-day administer the private properties), would allow the State to pass gradually from a finance on the basis of taxes to a finance on an exclusive basis of income. The principle of shareholding by the State and that of shareholding by the organisations of workmen (the latter adding the advantages of co-operation in production to those of a private concern) could also be put into effect gradually, as the shares of the companies fell into the hands of the State.

Limits of space do not allow us to enter into greater details regarding the new social system to which the reform which we have here considered might lead; details which the reader may find in our work above mentioned. These few hints, however, may suffice to give a general idea of it, and make it possible to see in some measure how it could conciliate the advantages of a Liberal economic *régime*—free private initiative, competition, etc.—with the supreme principles of justice which are proclaimed by Socialism. It is at any rate a reform that the very grave economic, social and political crisis, which is now revolutionising our old Europe, may perhaps render worthy of attention. In this case let the men at the head of the Governments judge how much there is in it that is realisable and practical, and let the different political parties consider whether it can have a place in their programmes of action, minimum or maximum.

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THE PROSPECTIVE FOOD SUPPLIES OF WESTERN EUROPE

It was anticipated by those who had studied the situation that the cessation of hostilities would by no means put an end to the difficulties with regard to the food supplies, at any rate of European countries. Their anticipations are being justified. Indeed, the difficulties have been increased by the fact that hostilities ceased rather unexpectedly at a time of the year in the Northern Hemisphere when it was impossible that any modifications in the extent and nature of farming operations should bear fruit until six to nine months later. The uncertainties that at present hang over the final issues of the Peace Conference, and the difficulties that lie in the way of immediate reconstruction, are not a little unfavourable to enterprise in farming, as well as in ordinary business pursuits. Under the most favourable circumstances agricultural production cannot return to its normal pre-war level in Europe before the autumn of 1920.

A survey of the world situation in respect of food supplies, as it existed before the war, shows that Western Europe, *i.e.*, that part of Europe which lies west of a line drawn through the Baltic and Adriatic Seas, was a great deficiency area to which nearly the whole of the surplus foodstuffs of all other temperate regions, including Eastern Europe, and a large part of the surplus tropical food specialities were consigned. This relatively small area contained in 1911 upwards of 250 millions of people, a greater population than that of the temperate regions of North and South America, of Africa, and of Australasia taken together. Though it had important agricultural industries, and several of the countries in it were nearly self-supporting in the matter of foodstuffs (including feedstuffs for animals), the predominant note throughout was industrial; indeed, in certain countries where there was little manufacturing industry in the strict sense, such, for example, as Denmark, Holland and Ireland, agriculture simulated the form of such industry, inasmuch as cereals were imported to feed the populations which were engaged in elaborating animal

foodstuffs, such as butter and bacon, largely or partly from imported feedstuffs and fertilisers. The population of Western Europe (that is, of course, exclusive of Russia) has almost certainly grown since 1911, in spite of the destruction of life caused by the war, since in the decade 1901 to 1911 it increased by twenty millions. If the same rate were maintained the population would increase by twenty-two millions more by the close of the present decade. If we assume an increase of some two millions only (which means considerably larger food supplies), this allows a liberal margin for deductions for the shorter period to date, for war deaths and for the fall in the birth-rate, more especially since during the last few years emigration has practically ceased. In the meantime agricultural production has suffered over wide areas in this part of Europe; partly because certain districts have been the scenes of battles or of the movements of hostile armies, but more especially because almost everywhere the supplies of imported feedstuffs and fertilisers have been materially reduced or entirely cut off, and because the wonted supplies of labour have not been available. On the other hand, the average *per capita* consumption of foodstuffs (including wastage) of the vast numbers of men in the armies of the various belligerents has been perhaps double their consumption in civil life. The results of the combined factors in the form of universal rationing systems and of semi-starvation over a large part of Europe are too well known. The conditions of the immediate past linger on into the present and future. To sum up the facts of the situation: Western Europe has in all probability increased its population since 1913, has almost certainly suffered a reduction in its output of foodstuffs, in spite of desperate efforts to the contrary, and has not been, and is not, able to import the full necessary supplementary supplies, even if they existed, from foreign sources.

The areas that furnished Western Europe with their surplus foodstuffs before the war are not of the same proportionate effectiveness as sources of supplies under existing conditions as they were in 1913. Before discussing these areas one preliminary observation is necessary; foodstuffs can be exported directly in the form of wheat, meat, etc., or they can be exported indirectly in the form of such feedstuffs as maize and oil-cakes, which are afterwards converted into animal foodstuffs of different kinds in the importing countries. In estimating a country's imports or exports of foodstuffs, it is clear, therefore, that account should also be taken of such agricultural products as are essentially

animal feedstuffs. This method of reckoning will be implied in the following paragraphs, if not directly referred to.

If the foodstuffs of tropical origin be omitted, it is found that Western Europe before the war received the bulk of its supplementary supplies of such articles from four areas, namely, Eastern Europe (with Siberia), North America, temperate South America and Australasia, and in the order named by values. It will be noted that Eastern Europe stands at the head of the list; but its surplus is now to all intents and purposes nil. At the present moment, indeed, Roumania, and probably Bulgaria also, are suffering from an acute shortage of essential foodstuffs, yet both were relatively considerable net exporters of foodstuffs, especially cereals, in 1913. In these countries, however, there will probably be a relatively rapid revival of agriculture. Russia and Siberia are in a different case; so long as the present disturbed conditions last the export trade in foodstuffs is not likely to be resumed. In any case, the resumption can only be partial for some time after the final conclusion of peace, owing to the absolute need for renewals in agricultural machinery and transport material. The failure of Russia and Siberia as sources of supply of foodstuffs for Western Europe throws an added burden upon the remaining principal sources, a burden which they are, and will be, in straits to meet. The temperate regions of North America, South America and Australasia were all suffering from a more or less acute shortage of agricultural workers before the war; with more people on the land they could have produced a greater surplus of foodstuffs. Now since the outbreak of war not only has an important source of increase of agricultural population for these regions been cut off by the cessation of emigration from Europe, but two of them have sent vast numbers of their able-bodied workers as soldiers to Europe, some of whom, unfortunately, will not return at all; some, incapacitated for manual work, will find other occupations; and of the rest but few will return to productive work immediately.

The three regions above-mentioned will probably make great efforts to meet the demand for foodstuffs in Europe, partly perhaps by reducing their own *per capita* consumption, partly by an increased use of machinery in agricultural production, and partly also possibly by devoting a smaller proportion of their resources to the rearing of animals and a correspondingly larger proportion to the production of food cereals. They will be stimulated to make the most of the opportunities afforded by a period of high prices. However, shipping difficulties may interfere with the delivery of

the maximum surplus output of these regions. North America is reasonably close to Europe, South America less so, and Australasia about as far removed as it is possible to be. There is good reason to suppose that the world's mercantile fleets will for some time be inadequate for the carrying trade required of them. It is important to observe that before Western Europe can supply appreciable quantities of return freightage in the form of manufactured goods, great quantities of raw materials must be carried thither from distant parts of the world. The result will be that for a time the normal excess of inward over outward cargo carried by ships trading with Western Europe will be greatly accentuated. Under these conditions there may possibly for some time to come be a difficulty in getting shipping space for the whole surplus of the less valuable and less perishable surplus produce from such distant areas as Australasia. On these grounds animal foodstuffs will obtain preference in shipping space to food cereals, such as wheat, and the latter to animal feedstuffs, such as maize, barley and oats. The more valuable cargo material is in proportion to bulk the easier it is to find space for it at all times, and especially when shipping is short. Since from 6 to 10 lb. of even the most concentrated forms of feedstuffs are required to produce 1 lb. of dressed meat, it is clear that any necessity for economising shipping space puts a premium upon converting surplus cereal feedstuffs into meat, butter, etc., in a distant producing country in preference to exporting them in a "raw" state; unless the materials in question are oil-seeds, such as linseed and cotton-seed, which are mainly treated in Western Europe for the extraction of the oils before being turned over to food animals. The difficulty of obtaining shipping space for the surplus foodstuffs from Australasia will be minimised in the near future, as it has been during the war, by the fact that, with the exception of Australian wheat, these consist almost entirely of the more valuable animal food products.

In proportion to its area Western Europe was before the war much the most productive of the world's agricultural regions, and until its resources are restored to normal working order there cannot fail to be a shortage there of foodstuffs of certain kinds. This process of restoration touches a number of departments of economic life. In the first place agriculture depends upon certain by-products of manufacturing industries for fertilisers. Examples occur in sulphate of ammonia and basic slag, which are yearly growing in importance with the growth of intensive agriculture, and which are not likely to be supplied in sufficient quantities

and cheaply unless manufacturing industries are prosperous. In the second place live-stock, including horses, have become greatly depleted in a number of important countries, and will require to be restored at least to their pre-war strength before the supplies of animal foodstuffs can become normal. It is to be feared that both breeding-stock and dairy cattle have suffered heavily, and, if this is the case, the process of restoration will be delayed. The shortage of working horses will seriously impede arable cultivation, unless machinery can be employed much more extensively than hitherto. On the smaller holdings this is almost impossible, except under a system of co-operative or public management, and on many of the larger ones the capital cost will prove prohibitive unless manufacturing industries are so far re-established as to permit of agricultural machines being sold at much lower rates than those at present ruling. In the third place, practically the whole of Western Europe north of the Alps depended in no small measure before the war upon overseas sources for an important part of its supplies of feedstuffs for food animals, and the re-installation of animal industries on the pre-war scale awaits the possibility of importing abundant and reasonably cheap supplies of such materials, a thing that is out of the question while freights rule high, and is unlikely of realisation so long as the greatest source of supply, namely, Russia and Siberia, remains out of the running. As will be shown later, the whole system of farming in Western Europe may have to be revolutionised in favour of a more extensive production of food crops at the expense of animal industries. Lastly, it is, of course, imperative that the systems of inland transport in Western Europe should be brought into normal working order before agriculture can be properly established, for, under the intensive system necessarily developed throughout the more populous part of this area, vast aggregate quantities of materials have to be carried from one place to another, and even from one farm to another, before the finished foodstuffs are ready to be delivered to the consumer. So far as roads, railways and canals have been destroyed or "let down" during the war, an impediment will exist in the way of a full development of agriculture until these are restored to proper working order.

During the war a number of the countries in Europe have been living in some measure upon the stored-up fertility of their soils. Crops have been taken in successive years with the minimum expenditure in labour and fertilisers, while live-stock, which have a beneficial effect on the whole on soil fertility, have been reduced

in numbers. In other words, a disguised part of the war bill lies in the reduction of the average fertility, and consequently of the average productiveness of European soils. It will be some time before this loss can be made good, more especially if the numbers of live-stock recover but slowly. The chief remedy seems to lie in an increased use of artificial fertilisers, which may or may not be sufficiently cheap and abundant; this course in any case would mean a special capital outlay in the first few years after the conclusion of peace, which may deter many farmers from following it, and would necessarily be reflected in the prices realised for the produce.

In order to obtain the greatest possible return in food-values from their available agricultural resources it is probable that the countries of Western Europe will have to devote more attention to the production of food crops and less to that of animal foodstuffs. This has already been done in some measure in neutral countries, as well as in Germany and in the United Kingdom, in both of which latter countries abnormal slaughterings of food animals have been encouraged by the Governments in order to supply larger quantities of home-produced meat at particular times, as well as to conserve the available resources in fodders and feedstuffs. In the United Kingdom pastures have been broken up for food crops, and the percentage of milling offals available from wheat for food animals was for a long time considerably reduced. The second of these devices for augmenting the human food supplies was practised likewise in Germany, where also a large part of the potato crop that was formerly consumed by animals was used as human food directly. Although in the United Kingdom the number of food animals showed no marked decline during the years 1914 to 1918, it seems certain that the output of animal foodstuffs was considerably smaller in the latter year than in the former, while the output of plant foodstuffs was undoubtedly greater.

Sweeping changes in the distribution of farm resources among different types of production cannot easily be made owing to difficulties inherent in the agricultural industry. Such changes upset crop rotations, involve a redistribution of labour and large purchases of machinery, and require for their success an unusual equipment in technical knowledge and adaptiveness on the part of farmers and peasants. Nevertheless, it appears that market conditions and the limited resources of consumers generally in Western Europe will for some time promote a continuance of, and possibly an increase in, the practice of devoting agricultural

resources in that area rather to food crops than to animals. The ordinary population will have to keep their consumption of animal foodstuffs below the pre-war level and to increase correspondingly their consumption of plant foodstuffs, including margarine, as a means of economising their purchasing powers and of utilising the available agricultural output to the utmost. They will eat more bread and less beef than in pre-war times, even if "war bread" disappears; less butter and more margarine; probably more cheese and more potatoes and less mutton, pig-meat and poultry; and they may have to restrict their consumption of alcohol in the form of beer and spirits; while eggs will be scarce and costly and cream a rare luxury. Under these conditions rationing in a limited form is likely to continue for some time, so that the coveted supplies of animal foodstuffs may not be monopolised by the few who can afford to purchase them; for the production of these articles beyond certain quantities is a costly matter, subject in times of shortage to severe limitations. Beyond a certain point every extra ton of meat produced in a limited area means that an average of about ten tons of cereal produce must be imported from elsewhere. North America, South America and Australasia will, of course, continue to furnish large supplies of meats, dairy produce and wheat, but such supplies may not be much more than sufficient to meet the deficiency in Great Britain alone, as has been the case in the past. The key to the situation lies with Russia and Siberia, and the extent of the supplies of foodstuffs, if any, to be derived thence in the near future is a perfectly unknown quantity.

The shortage of meat in Western Europe may be rendered much less noticeable by largely increased supplies of sea-fish which are capable of acting as a substitute for both meat and animal fats in the diet. The Japanese, in fact, have been able to maintain a healthy and vigorous existence with very limited supplies of meat and other animal foodstuffs, but they consume great quantities of fish. Not only were the quantities of fish landed in Europe increasing in the years preceding the war, but during the war the North-Western Atlantic sea-fisheries have on the whole been subjected to comparatively small drains. With the cessation of hostilities and the resumption of fishing operations on something like the old scale, the catches may for a time be much greater than in the past. It is possible, therefore, that meat may be economically displaced by fish to an appreciable extent, provided consumers are willing to make the necessary substitution.

However, with the exception of this factor of fish supplies, it appears that the supplies of foodstuffs in Western Europe cannot again be reasonably abundant and unrestricted as regards the consumer's choice until the industrial systems in the same area are re-established in working order. For on this depends in some measure not only the progress of European agriculture, but the further development of the chief sparsely populated regions of surplus production, namely, the temperate lands of the Southern Hemisphere. Both of these will have to do greater things so long as Eastern Europe remains a blank number. Already before the war a relative shortage of animal foodstuffs had begun to appear in the world's markets, and the recent almost universal fall in the birth-rate among white populations will not materially ameliorate the situation in the next couple of years without changes in the forms of agricultural production and in the consumption of foodstuffs such as those indicated above, or a rapid re-establishment of the whole economic life of the disturbed countries, leading to an unexpected increase in the output of agricultural produce throughout the world.

E. W. SHANAHAN

REVIEWS

Papers on Current Finance. By H. S. FOXWELL, M.A., Fellow of the British Academy, Professor of Political Economy in the University of London. (Macmillan. 1919. Pp. xvii + 280. Price 10*s*. 6*d*.)

THIS volume is made up of reprints from THE ECONOMIC JOURNAL and from other journals of which the matter is largely of an economic character. The papers have been reprinted without alteration and with no attempt to bring the figures up to date.

Under normal peace conditions the reprint of unrevised articles is looked at askance alike by publishers and readers. But, as Professor Foxwell truly observes in the "Introduction": "The progress of events is now so extraordinarily rapid, and the situation changes so much from day to day, that only the daily Press can keep fully abreast of the movement." It may be added that even the daily Press has been so much stifled by official and self-imposed censorship (in the supposed interest of British credit) that the daily records have long been incomplete and the short-period commentaries unduly restrained.

A volume by Professor Foxwell is always welcome. The reader is assured of vivacity, clearness, and the personal touch which redeem even papers on currency from dullness.

Five out of the seven papers have been written during the war, and they are already of historical interest. The first two papers are mainly descriptive and critical of the financial policy of this country in the first year of the war.

The emergency relief measures are properly censured as excessive. Excess of precaution may have been a fault on the right side at the beginning of the war, but when it became clear that Kitchener's estimate of three years was probably under the mark more thought ought to have been given to the ulterior effects of the emergency measures. It is impossible and unnecessary to go over the whole ground of Professor Foxwell's survey. The

most interesting point at the time of writing this review (the final day of the Victory Loan) is the insistence on the advantage of the method of continuous borrowing and on the remarkable success of the Treasury Bill.

Every war measure of every kind can be justified if it can be shown that it helped to win the war. Nobody wishes to blame anybody who can put forward this excuse. But now that the spring of 1918 seems as far off as the eve of Waterloo we can put aside questions of blame and excuses and consider the effects of the financial strategy and tactics actually adopted.

The term continuous borrowing suggests the everlasting principle of continuity, which tells us that by insensible degrees we can pass from the too little to the too much, and that it is hard to hit the golden mean.

The great argument for the Victory Loan has been that it was necessary for the credit of the country to get rid of the excessive short-term liabilities which had been created by this very method of continuous borrowing, and in particular to reduce the amount of Treasury bills outstanding.

This line of criticism is still more justifiable in the case of the currency notes. Professor Foxwell points out in his first paper (ECONOMIC JOURNAL, December, 1915) that the new currency note is absolutely undefined. "Currency notes may be issued to such persons and in such manner as the Treasury directs." And it is observed that what is still more objectionable is that the actual method of issues is concealed, and the whole weekly return "quite incomprehensible except to those who have privileged access to an understanding of its mysteries." [1]

The urgent need for a definite statement of the real object of the issue of the new notes is shown by Professor Foxwell by pointing out that the term "note" is capable of various interpretations according to the use intended. "Notes" may be issued for no less than six different purposes, of all of which we have important historical examples. By a process of exclusion he shows that the ostensible object of our new currency notes must have been one of two. At the outset these notes (he says) were issued and intended as an emergency issue. The primary object was to allay the bankers' panic and to prevent the development of panic in the general public. From this point of view the new issue was meant to work in the same way as a suspension of the Bank Act of 1844, only more effectively by providing also notes of lower denominations.

[1] Quoted from Mr. Withers' *War and Lombard Street*.

In the same way the issue later on might have been used to lessen the strain on the banks caused by the enormous war loans. But Professor Foxwell argues that if this was regarded as the primary use of the new issue it ought long ago (he is writing towards the end of 1915) to have been withdrawn.

The real aim, however, of the issue, in his opinion, ought to have been the concentration of all our available gold at the centre. The strongest argument (he recalls) in favour of retaining our full gold circulation before the war, in spite of the expense and inconvenience, was that the gold, though not available at the moment, might in an emergency be withdrawn from the circulation by the issue of one pound notes.

But from the point of view of gold concentration the issue of currency notes was a failure. In time no doubt the gold sovereigns and half-sovereigns were displaced from active circulation, but there was never any systematic and regularised withdrawal of the gold and substitution of the paper. In a few months £28½ millions were set aside for the redemption of the notes, but the proportion of gold has fallen down to nearly 8 per cent. without any addition being made to this note reserve. What has become of the rest can only be conjectured.

If this view of the object of the issues had been adopted by the advisers of the Government, any further issue of the notes should have been stopped as soon as all the gold was displaced. For a long time it was maintained by the optimists that in effect the notes had simply taken the place of the gold in circulation. But when the notes had passed the three hundred millions, and the volume had become roughly three times as great as the circulation of gold before the war, this displacement theory became untenable.

In the same way the theory that the notes were convertible was disproved by the hard facts of *de facto* inconvertibility. It is true that on the back of the notes a reference was made to a section of one of the emergency Acts, by which it was provided that the Bank of England was to give gold for any notes presented. This was convertibility in theory. But in process of time any use that could be made of the gold became subject to the criminal law. Gold obtained from the bank in exchange for currency notes could not be exported, nor could it be melted down for use in the arts at home. Even hoarding by private persons was condemned as unpatriotic. Early in the war cases occurred in which dealers were punished for buying sovereigns above the nominal value. If the notes were really convertible, why should

they not have got the sovereigns from the bank at their par value instead of giving a premium?

The distinction between *bona fide* convertibility and *de facto* non-convertibility is of vital importance. With *bona fide* convertibility, such as existed in this country before the war, every form of representative money was interchangeable with gold, and there was a free market for gold.

The transition to *de facto* inconvertibility was only made gradually and was never legally recognised. But in monetary matters it is the fact that counts.

As soon as the notes become *de facto* inconvertible it is necessary to apply the principle of limitation in some rigid way to prevent depreciation. We all know now that depreciation may be of two kinds, which may advance at different rates. Specific depreciation, as measured by the foreign exchanges or by the premium on gold, may be prevented or hidden by various devices, which were tried with great success as regards the pound sterling in the course of the war. As soon as the artificial management of the American exchange (the most important) was abandoned a fall set in, and at the time of writing (July 17th, 1919) it is quoted as low as 4·36 dollars to the pound. It was noted recently in the *Times* that, in spite of the low exchange, gold had been sent from the United States to this country. This paradoxical result was accounted for by the great demand for gold in this country for use in the arts, gold ornaments, etc., which caused a high premium on gold.

In face of these facts it can be no longer denied that our currency has suffered a specific depreciation.

The general depreciation, as shown by the great rise in prices, became obvious as a matter of change in purchasing power after the first six months of the war. During the war everyone knows that the index-numbers were continuously rising. Although after the Armistice there was a fall for some time, it was soon checked, and the *Economist* index-number for June just fell short of the highest record of the war.

There can be no question of the fall in the general purchasing power of the British currency, but it does not follow that this fall is to be accounted for wholly or mainly by the non-convertibility of the currency notes.

The point revives the old controversy that began in the Napoleonic War period and has gone on ever since. In that period it was maintained that the specific *depreciation* of the notes was really a specific *appreciation* of gold, and the general

rise in prices (or general depreciation of the currency) was accounted for, in the manner of Tooke, by the cumulative effects of obstructions in the supply of commodities and services.

Now the idea prevails in some quarters that the general rise in prices in this country is only part of a general world rise, which general rise is in fact a depreciation of gold. This explanation is theoretically valid and even to some extent plausible. There has been a general displacement of gold by paper all the world over for monetary purposes. The gold extruded from active circulation has still considerable monetary power, but being supplemented by so much paper is naturally depreciated. A general depreciation of gold means a general rise in prices.

The world is now not on a pure gold standard, but on a diluted gold standard.

This view is brought out in a very able manner by Professor Foxwell in Paper VII. on "Inflation." This paper, as the footnote records, was read to the Institute of Actuaries on March 26th, 1917. The course of events since has shown that the argument needs readjustment. The opinion now expressed, both by the Government and by representative bankers, is that the rise in prices in this country has been due largely to the abnormal increase of our own currency and of the credit based upon it.

On another point Professor Foxwell differs from the opinion that at last—unfortunately very late in the day—has come to prevail, namely, as regards the importance of the part played by the currency notes. He regards the issue of the notes as purely consequential on the increase of other forms of credit money. Undoubtedly the Government loans of various kinds had to be pulverised into small money before they could be used in the purchase of the services of labour, etc., etc. An advance by the Bank of England to the Government must be made effective by being transmuted into smaller amounts and finally into notes or metallic token money. With any general rise of prices from any cause, or combination of causes, there must be a readjustment of the various amounts of money of different kinds.

From this point of view the quantity of gold itself in any particular country under normal conditions must be adjusted to the general level of its prices. So far the quantity of gold may be considered (as Giffen observed) as the consequence and not the cause of the general level of prices in any country. But the recognition of this kind of monetary demand does not destroy the quantity theory of money, and it may still be maintained that the

general world-level of prices depends on the quantity of gold compared with the work to be done by it.

As soon as gold is effectively deposed from being the standard in any country and its place is *de facto* taken by paper money, then that paper money, for that country, is not simply consequential as regards the movements in prices, but rather causal. Under the new conditions the expansion of bankers' credit depends on the power to obtain as much as they require of the new legal tender, just as before it depended on the acquisition of gold.

But for the power of issuing notes *ad libitum* in this country the banks could never have made, as they did, the great advances of credit. The Government would have been obliged to resort to more taxation much earlier and to forced loans if voluntary loans were not sufficient. It is true that in this country the issues of notes have been relatively small as compared with France—that is to say, on the basis of wealth or of population. But when we take account of the fact that before the war the cheque was the principal form of our media of exchange, and we observe that the use of cheques in the war has enormously increased, the comparison of note issues does not seem so much in our favour.

There are other matters of fundamental importance as regards "Current Finance" in which Professor Foxwell offers acute and vigorous criticism of floating opinions, as, for example, in Paper IV. on "Financing Industry and Trade." The comparison of German with British banking is excellent as descriptive of their functions, but the implied judgment of their relative merits is open to question. The question is, however, too wide for discussion in this place.

Professor Foxwell's volume is not confined to monetary problems. In an appendix he reprints an interesting paper read to the British Association in 1888, in which he discusses the relations of competition and combination and expresses the opinion that, "contrary to the expectation of Adam Smith and his contemporaries, we find competition tending to result in monopoly." The Paper is entitled "The Growth of Monopoly, and its Bearing on the Functions of the State." The same ideas are developed in Paper III. on the "Nature of the Industrial Struggle," given as a lecture to the Royal Institution in April, 1917—that is, nearly thirty years later. Both papers may be compared with the recent report of the Committee on Trusts. There is nothing new under the sun.

Paper V., on the "Banking Reserve" (written 1909), is inter-

esting now as showing how far we have travelled in the last ten years—especially, of course, in the last five. The questions discussed in this paper take for granted the foundations of the whole banking system of the country. The suggestions are for improvements of the superstructure. Now we are concerned with the stability of the very foundations. "I come last (p. 152) to what seems to me the greatest danger that threatens our credit, I mean the position we should find ourselves in in case of war between two first-class Powers, especially if this country were actively engaged." He quotes with approval an opinion of Sir Felix Schuster that "an efficient gold reserve in time of war, at the commencement of hostilities, is infinitely more important than food supplies." We have a long way to go before we come back to the gold standard, as taken for granted (very properly) in this paper.

This imperfect summary may suffice to show that the volume under review ought to be carefully studied, especially by those whose opinions are subject to criticism. In the course of the war the continuous chorus of praise of successive emergency measures, though based, as time showed, on contradictory principles, has blunted our financial sensibilities. Under these soporific conditions it is high praise to say that Professor Foxwell's volume is stimulating. The greatest living collector of the controversial economic papers of the past has caught the spirit and the charm of the old pamphleteers. He writes at first hand. He is not a mere transcriber of authorities, old or new.

J. S. NICHOLSON

Taxation in the New State. By J. A. HOBSON. (Methuen and Co. 6*s*. net.)

IT is now clear, even to those who supported the then Chancellor of the Exchequer in his shortsighted postponement of taxation during the first year of the war, that the result of postponement has been to make the burden of future taxation very much heavier than it need have been. Mr. Hobson looks forward to a permanent peace expenditure of more than £800 millions, of which nearly half will be interest and sinking fund on the War Debt. So large a sum, he maintains, can only be raised by a "crippling" income tax; therefore, in his *Taxation in the New State*, he looks round for an alternative. This alternative, as he suggested elsewhere some time ago, is to be found in a levy on

capital; but, first of all, he tries to give "a new and clear meaning to 'ability to pay' by indicating what elements of income possess it and what do not." He does not agree with Adam Smith's maxim that citizens should contribute to the support of the Government "in proportion to the revenue which they respectively enjoy under the protection of the State"; he would substitute for it a rule "confining taxation to surplus elements of income." Surely the State is something more than a cinema, a glass of beer, or an ounce of tobacco, on which you spend money if you have some spare cash! If the majority of citizens come to think that they have no duty to their country, both they and the country will suffer. A sounder doctrine would insist that a citizen's first duty is to do some service for his country, and the first service is to contribute towards the cost of governing it. Under an autocracy or an oligarchy the majority of citizens might argue: "We have no political rights, therefore we have no political duties"; with our twenty millions of electors nothing of the kind can be pleaded.

Mr. Hobson's case is not quite so simple as this; he contends that no part of a man's income which is essential to maintain him in an efficient condition can bear any tax. Very well; but surely the maintenance of the State itself is the very first condition of existence for the worker. Mr. Hobson is a Socialist, and therefore a believer both in equality and in greater State activity. But if everyone had just enough income to keep himself efficient, there would be no source of revenue left to the State. Once more, however, we must do Mr. Hobson the justice of stating that he has another argument, *i.e.*, that it is no use trying to tax persons who have no surplus, because they will "shift" the tax to someone who has a surplus. If Mr. Hobson's theory were adopted, we should have an overwhelming majority of electors personally interested in lavish expenditure by the Government and perfectly free from any responsibility to pay the taxes necessitated by this expenditure. The railways, coal-mines, and Post Office might continue to be run at an increasing loss and no part of the loss would fall on them.

After stating his general principle, Mr. Hobson goes on to consider indirect taxes, which are, he says, "generally worse than useless for purposes of revenue, producing little, costing much, and interfering with the general productivity of industry and commerce." The experience of Europe during the war has certainly told heavily against import duties, and with the rise in the cost of living and the consequent rise in the wages of Govern-

ment employees, it may be doubted whether indirect taxes produce any net revenue, especially when we allow for the £50 millions of the bread subsidy. Mr. Hobson then discusses the income tax, and in the main adopts Mr. Sidney Webb's proposals, which would make the family the taxable unit. He does not, however, attempt to work out, even roughly, the cost of his proposals, and in several places betrays an insufficient acquaintance with our income tax law. If he had realised what actually happens at the various "jumps" in the tax (*i.e.*, at £401, £501, £1,001, etc.), he would not have fallen into a simple trap on page 87, where he talks about "a sudden rise of $\frac{1}{2}d.$ in the £" at £401, "whereas two jumps at £1,001 and £2,001 are only $\frac{1}{5}d.$ and $\frac{1}{10}d.$ in the £." The fact is that after each jump the tax-collector takes so many solid pounds, so the extra pound paid on £401 raises the effective rate from 18·9 pence to 19·5 pence, or three-fifths of a penny, while at £1,001 the extra pound raises the rate from 30 pence to 30·2 pence, and at £2,001 from 44 pence to 44·1 pence in the pound. The Inland Revenue authorities are more efficient than Mr. Hobson imagines on page 110, for they do not allow companies to "escape income tax" by any "distribution of gains" in the way of shares or bonuses. A company is taxed on its "gains," whether it distributes them in dividends or shares or not at all; in fact, the Exchequer stands to lose by distribution, since it has to refund part of the tax to all shareholders with income of under £2,000 a year. For this reason, among others, it is highly reactionary to suggest the abandonment of "taxation at the source"—the best opinion favours its extension. All periodical payments, including salaries, fees, and wages, should be made "less tax," as the British Association Committee suggests in its evidence before the Royal Commission on Income Tax.[1]

Mr. Hobson does not put forward any income-tax scale of his own, but recommends one which was expounded in the *Daily News* by Mr. J. Zorn, a scheme equitable enough in itself, but irreconcilable with our present law and practice, and only promising to raise about half as much as the existing tax. Perhaps Mr. Hobson is not very keen on increasing the yield of the tax, for he pins his faith to a levy on capital. At first he appears to want only a levy on "war-made wealth." He speaks of "new capital coming into existence during the war of not less than 6,900 millions." Then, after allowing for the sale of foreign investments, he reckons that "the amount of new savings during

[1] First Instalment of Evidence, page 74.

the war can hardly be less than 5,000 millions." Is war really such a wealth-creating industry? A war loan does not increase the capital of the country; it reduces the real value, and the market value, too, of all existing securities. Already the financial methods of 1914–15 have taken away half the real value of all mortgages, debenture and preference stocks, all ordinary shares of banks, railways, gas, water, electric and tramway companies. In other words, the war has been paid for partly by a *concealed* levy on certain kinds of existing capital. If we accept Mr. Hobson's figure of £16,000 millions as the present value of the national capital and £11,000 millions as the pre-war value, both in terms of the legal pound sterling, it becomes clear that the *real* value has fallen, for taking "Bradburys" as being worth 12*s*. each —and they are hardly worth 10*s*. for purchasing labour or commodities—the real national wealth is seen to have fallen from £11,000 millions to £9,600 millions.

What has actually happened during the last five years is a prodigious transference of wealth and spending power from the pre-war propertied classes to the makers and providers of war material. If a levy could be made on the latter, there is much to be said for it, but the practical difficulties of identification, and so on, are probably insuperable, and in most cases the extra earnings have been spent as quickly as they were gained. Mr. Hobson, in fact, soon comes round to "a general levy upon capital," but he does not offer any calculation of the amount which could be raised or of the scales of taxation which it would be necessary to impose. He omits to notice, also, that other advocates of the levy have no intention of using it as a means of bringing down the rate of income tax. Seeing that the people who would pay most of the levy are already paying a ten-shilling income tax, there would in the end be very little margin for the purpose, as Professor Scott[1] has explained. Mr. Hobson replies to some of Dr. Scott's points in this JOURNAL of a year ago, but he hardly attempts to meet other objections to the proposed levy, nor does he show how it is to be adjusted to his own principle of "ability to pay," for apparently he would begin his levy with property yielding an income of £60 a year, while he would not apply the income tax to incomes below £250 a year.

J. E. ALLEN

[1] ECON. JOURNAL, vol. xxviii., p. 247.

Gold Prices and the Witwatersrand. By R. A. LEHFELDT, D.Sc. (London: King. 1919. Pp. 130.)

PROFESSOR LEHFELDT brings to the study of gold and prices two qualifications which are rare in their combination: a powerful grasp of monetary theory and a practical acquaintance with the conditions of gold mining. With peculiar force and authority he discourses upon the stock of gold which constitutes the supply of money, the requirements of commerce which form the demand for money, and the level of prices which results from the play of supply and demand. He verifies his theories by an historical retrospect, and applies them to the problems of the future.

The stock of gold in the world (excluding India and China) was almost stationary in the early 'forties of the nineteenth century. Then under the influence of increased annual production the stock continued to rise until the 'eighties. Again it became nearly stationary, and again it bounded upwards, reaching £1,000,000,000 in 1901 and nearly £1,500,000,000 in 1916. Meantime the demand for gold continued to increase with the progress of trade and industry. The rate of this progress is ingeniously measured by Professor Lehfeldt. He observes the annual rate of increase in the production of several commodities for which accurate data are available—meat, corn, tea, sugar, etc.—ranging from 1 per cent. to nearly 5 per cent. per annum. He takes as an inferior limit to the true rate the growth of population (say 1½ to 2 per cent.), which is certainly slower than that of goods throughout the world; and as a superior limit the rate of increase calculated by Professor Irving Fisher for prosperous America (nearly 5 per cent.). From all which he concludes that the true rate of progress is not very different from 3 per cent. That would be the rate at which the stock of gold should have increased in order to keep pace with the volume of business, if the currency had been entirely metallic, and gold had been the only precious metal. But silver played an important part in the period under review. And the demand for precious metal was modified by "paper substitutes." Account must be taken of the "currency factor," defined as the currency actually used by the public of a country (exclusive of bank reserves) divided by the stock of gold in that country. And other factors there are affecting the demand for gold money; in particular the frequency with which either the same goods are sold, or the same money changes hands. Balancing all the factors,

Professor Lehfeldt reaches the remarkable conclusion that "the quantity theory of money, as it would be if there were no money but gold, is but slightly modified by the circumstances of the modern commercial world." Equally accurate statements about monetary phenomena are not available in the course of a great war. "In peace time it is safe to say that considerable changes in price-level are due principally to monetary changes." But war introduces another cause of the first magnitude, difficulty of production. No doubt "a great deal" of the present rise in prices is "due to inflation of the currency." But "it is too soon to make a quantitative estimate of the inflation due to the war." After the war it is not to be expected, thinks Professor Lehfeldt, that Government will resort to heroic measures for the reduction of inflation, such as contracting loans whereby to redeem paper currency. He looks, rather, for the growth of production up to the level of the inflated currency. At the rate of increase which he found for the trade and industry of the world, namely, about 3 per cent. per annum, it would take fourteen years for demand to overtake supply of currency in such wise as to restore prices to their old level. This desirable consummation might be delayed by an undue output of gold. As the mines of the Witwatersrand—from which nearly half the world's annual supply of gold is raised—are fairly prosperous, it might be to the interest of owners to greatly increase their output. But what might be the interest of each would not be the advantage of all, not that of the Government or of the world. Accordingly, Professor Lehfeldt recommends an international control of output. It would be sufficient that the four nations within whose territories are the principal gold mines should agree as to the control of those mines.

To attempt to improve on Professor Lehfeldt's monetary theory would be like gilding refined gold. The following reservations are submitted rather as alloy to his pure science. First, we suggest a definition of a leading term which is less distinct, but perhaps not less appropriate, than the definition adopted by our author. By "velocity of circulation," he says, "is meant the average number of times the money passes from one ownership to another in a year." In thus introducing the unit of time Professor Lehfeldt is in accord with very high authorities on the science of money, Jevons and Professor Irving Fisher. Yet it may be questioned whether they effected an improvement on Mill's [1] definition, which was intended to "point attention to the

[1] *Pol. Econ.*, Book III., ch. viii., § 3. The point at issue has been considered by the present writer in his lecture on "Currency and Finance," 1917.

quantity of work done, without suggesting the idea of estimating it by time." We shall be pardoned perhaps if we recite an old anecdote for the purpose of illustrating a point which may not be familiar to some readers. Tommy and Harry were taking a cask of beer to the Derby with the intention of retailing its contents at 6*d*. per glass; the proceeds to be divided between the two partners. On the way, Tommy, becoming thirsty, proposed to purchase a glass for his own consumption. He had not, indeed, the price of a glass; he had only a threepenny-bit. But he pointed out that if he handed this coin to Harry he, Harry, would be as well off as if the glass of beer had been sold to an outsider. Harry assented, the more readily as his pockets were empty. Presently Harry became thirsty; and the threepenny-bit again changed hands, in exchange for a half-glass of beer. In short, the nimble coin circulated with such efficiency that the entire contents of the cask were bought and sold before the end of the journey. Now who does not see that the point of the story does not depend on the duration of the journey? The moral would be the same whether the partners travelled by express train or in a donkey cart. To be sure, it comes to the same if, after defining the velocity of money with respect to the time, we also define the quantity of business or traffic—of "work done," in Mill's phrase—with respect to the time. Yet, why drag in the time? It is less usual, we believe, to drag it in with respect to that rapidity which is symmetrical with the velocity of currency, namely, the frequency with which the same goods are sold. Thus Professor Lehfeldt writes: "A piece of iron ore in the ground is eventually converted to a razor; how many sales are involved before the transformation is complete?" The answer to this question has little to do with the time occupied. Apropos of this second species of rapidity, we may recall Professor Lehfeldt's brilliant suggestion (made in THE ECONOMIC JOURNAL for 1918, p. 111) that a considerable change in this factor may have contributed to falsify the interpretation of monetary phenomena during the war. He now dwells upon another incident, the great increase in difficulty of production caused by the war. We surmise that there is something common to these two factors considered as disturbing monetary calculations. They both form large unique causes, deficient in that character of *sporadic independence* which is essential to the theory of Probabilities, which underlies the construction of index-numbers, which are required for the determination of changes in the level of prices and the volume of production. We hazard a further conjecture as to the

reason why the catastrophic incidents of a great war are less amenable to scientific treatment. They have not, like the gradual growths of peace, the advantage of that deep first principle associated by mathematicians with the name of Taylor, according to which, when one quantity is dependent on another, small changes in the latter are apt to be attended with *proportionate* changes in the former. Thus if y, the level of prices, varies with x, the quantity of money, Δx, a small increment of the latter, being attended by Δy, a small increment of the former, it may be expected that if Δx is doubled or increased by any not very large percentage; the corresponding increment Δy will, other things remaining unchanged, be increased by about the same percentage, whereas nothing like this can be predicated of the total quantities x and y. In this respect a considerable (or "integral") change in quantity x is a datum of less scientific worth than a small ("differential") change. For these reasons we are inclined to doubt whether it will be ever possible to make —what Professor Lehfeldt admits that it is "too soon" to make —"a quantitative estimate of the inflation due to the war." It need hardly be added that the fine issues here raised nowise affect the main arguments and practical conclusions of Professor Lehfeldt's masterly treatise.

F. Y. EDGEWORTH

The Use of Factory Statistics in the Investigation of Industrial Fatigue. A Manual of Field Research. By PHILIP SARGANT FLORENCE, M.A. (Cambridge), Ph.D. (Columbia). Vol. LXXXI., No. 3 (whole Number 190) of the Columbia Studies in History, Economics, and Public Law. (New York: Columbia University; Longmans, Green and Co.; London: P. S. King and Son. 1918. Price 1.25 dollars.)

THE causes of the late development of interest in the industrial significance of fatigue will doubtless one day provide an instructive chapter for the student of economics. To-day the main facts seem so plain that we are apt to wonder how they can have failed to excite interest earlier. But it remains true that, though such experiments as those of Abbé at the Zeiss Optical Works in Jena gave rise to a good deal of discussion, and suggested to many employers the advisability of shortening hours, no serious attempt to apply the conclusions of psychology and physiology to industrial conditions was made in this country till after the Report of the

British Association Committee at Manchester in 1915. In America the work of Miss Goldmark and Professor Lee, the existence of a considerable body of reliable statistics, the development of an organised movement for the reform of factory conditions, and the interest of employers in scientific management, have all combined to produce an atmosphere favourable to systematic effort. Meanwhile, in Germany, the researches of Kraepelin had been applied from the economic standpoint by Professor Max Weber, and the essentials of an adequate terminology provided. With such an equipment it seemed probable that the economist and the statistician could confidently approach factory records, and conclusions would not be long in emerging. But four years' experience have by no means justified these expectations, and the book before us provides a sufficient explanation.

It is the merit of Mr. Florence, who was largely responsible for the two British Association Reports on which so much of the later work has been based, and who subsequently carried out some important investigations for the British Health of Munition Workers' Committee, not only to have brought together all the results hitherto obtained by the efforts of psychologists and economists in the study of factory conditions, but to have advanced the subject considerably by his acute analysis of the complications which that study has revealed. His first thirty pages deal with the elements of the problem, the nature of fatigue, the working day, the statistical method, and so forth. From this he passes to methods of measuring working capacity, by the output rate, consumption of power, accidents, spoiled work, sickness and unrest. In connection with "lost time" Sir James Paget is quoted to the effect that "fatigue has a larger share in the promotion or permission of disease than any other single causal condition you can name," but more stress might have been laid on the extent to which the results of accumulated fatigue inevitably escape the statistician. The British Commission appointed in 1917 to inquire into and report upon the causes of industrial unrest endorse the contention that there is a close connection between unrest and fatigue, and Mr. Florence thinks that some record of their correlation may appear in "the rate at which factories are found to lose and replace their employees." But any such record will for practical purposes be chiefly of academic interest, for it can never be free from ambiguity, and in the meantime the facts it may inadequately indicate are plain for all to see. We would go further and suggest that the value of a great

part of such an analysis as is here presented is negative rather than positive. It will serve rather to warn off the over-confident investigator than to promote the developments which the advocates of investigation desire. It may be that in America there are factories where wages output and capacity are so delicately calculated and on such a scale that minute alterations in the working capacity of the human machine will be regarded as of importance. Certainly the introduction of rest-pauses and an appreciation of the significance of rhythm have been greatly assisted by such work as that on which Mr. Florence has been engaged. But such further changes as are not dictated by common sense are so closely allied to the system of scientific management that the future of the study of fatigue in factories as at present conducted is bound up with the future of the larger movement. And it is by no means unlikely that the industrial situation will soon produce a new orientation arising out of the attitude of the workers themselves towards labour-saving devices. Mr. Florence can still contemplate investigators who "note down the number and duration of rests taken and their nature, *e.g.*, idling, sleeping, stretching, etc., amount of talking or singing, eating, or leaving room; remarks passed by workers which would throw light on their subjective feelings of fatigue." But will the conditions of labour in the future really be affected by the fact that an investigator notes how on twenty-seven occasions towards the end of the seventh hour, A said to B: "'Ere, Bill, I'm getting fed up with this —— job"?

Here in England, it is true, we are promised further official investigation under the auspices of a new Board. Whatever the channels into which their work may be directed, the analysis of such statistical data as may result will be facilitated by the present publication. In particular, such tables as that given by Mr. Florence at page 147, for a sample operation in the textile industry, will be invaluable to any future study of different types of work in "influencing the influence" of activity on working capacity.

There has been much controversy on the question as to whether the accident rate expresses human working capacity at all, but after classifying accidents under seven heads Mr. Florence lays it down that the three last, which are "due to unusual action on the part of the worker owing to his lack of co-ordination or to positive inattention," are most expressive of working capacity; and he goes on to urge that the majority of the accidents which actually take place in factories fall into "the humanly-circum-

stanced grades." Bogardus, in 1911, calculated that of 2,666 accidents occurring in the State of Illinois, 2,203, or 82½ per cent., were certainly "avoidable by the injured." We cannot feel that the difficulty is satisfactorily solved, and when (p. 35, footnote) Mr. Florence actually states that "any accident, however slight, is a symptom of diminished capacity," we feel that though his own later analysis proves it to have been merely a slip of the pen, the statement has been virtually endorsed by many less critical writers. Clearly many street accidents could be "avoided" if the public remained indoors or even on the pavement in slippery weather; just as many mistakes in reasoning would be obviated by closer attention to the requirements of logic. But to contend that street accidents and logical fallacies are expressive of *diminished* capacity would not more brusquely over-ride the maxim, *humanum est errare*, than does the doctrine that every shell which a man drops on his own toes is an index of fatigue. For the rest the question of accidents serves admirably to illustrate the value of expert guidance through the intricacies of statistics provided by official records. Thus in Ohio, for the year 1915, molten-metal accidents between 10 and 11 a.m. reached a maximum more than twice as high as the figure for the next highest morning hour. The explanation proved to be simple—namely, that in the earlier hours the moulds are made, while later in the spell the molten metal is cast or poured into the moulds. In every case, therefore, the investigator may be warned to reject all comparisons of the accidents occurring in periods between which there is a definite inconstancy in the physically conditioned danger. And such a rejection can only be decided on by a careful study in the field of the processes involved.

It remains only to add that the book is attractively arranged and printed, though a few typographical errors have crept in. Most of these are unimportant, but the investigator who contemplates a journey to Liège in search of the English Chemical Works (p. 86) will do well to note that the correct designation of the firm appears on p. 103.

C. K. OGDEN

Theoretische Sozialökonomie. Von GUSTAV CASSEL. (Leipzig: C. F. Wintersche Verlagshandlung, 1918. Pp. xii+582. Mk.28.)

PROFESSOR CASSEL'S theoretical work with the above title was originally intended for publication in Germany as far back as

1914; and part of it was, in fact, already in type when the war broke out. The publisher then found immediate publication inconvenient; and it is only after many difficulties—the last being the revolutionary movement in Germany—that the first copies have finally reached Sweden. As it will probably not be long before the work reaches England, and as a work of this kind will certainly be especially appreciated in the mother country of theoretical economics, it will be worth while to introduce it immediately to the readers of this JOURNAL.

Cassel's book, which will be completed later on by a historical-sociological volume, written by Professor Pohle, of Leipzig, is divided into four parts: "A General Survey of Economic Life," "The Prices of the Factors of Production," "Money," and "The Theory of Cyclical Fluctuations." It ends with an appendix containing numerous economic data, of which use has been made in the preceding theory; besides which, the author has in two supplements, to the first and third books, discussed some economic phenomena especially apparent during the war, such as prices and their levels. In spite of everything, as the author remarks, economic theory has held good and has proved adequate on all vital issues. The only new element of which political economy has had to take account during the war is the rationing system. The question of its significance in a social economy which up to the war had been mainly determined by free exchange must therefore be treated separately (*vide* the supplement to the first book). Still, however much present economic conditions and those of yesterday may differ from what "practical men" had considered normal, they have not upset scientific theory. Who will now doubt, *e.g.*, the close connection between the quantity of money on one side and prices and the foreign exchanges on the other?

It will naturally not be possible to give a fair idea in this short notice of the rich contents of Professor Cassel's book, which must be considered as the summary result of a consistent economic system, slowly and laboriously worked out during many years. Its first traces may be found in the article "Grundriss einer elementaren Preislehre," published in *Zeitschrift für die gesamte Staatswissenschaft* as early as 1899, and criticised by another Swedish economist, Knut Wicksell: "Zur Verteidigung der Grenznutzenlehre" (in the same journal, 1900).

Here Cassel, in fact, makes the first bold attempt to abolish the classical as well as the modern theories of value, and to lay the whole foundation of the system directly on a theory of prices.

This has also been the leading idea of his entire work. In endeavouring to make the formation of prices the foundation of the whole theory, Cassel was led to write a book on *The Nature and Necessity of Interest* (London, 1903), in which he considers even interest as a *price*, determined by the supply and demand for waiting.

I think I am right in saying that the first two parts will be of special interest for English economists, and for the following reason: Cassel has a different opinion, or, perhaps, rather, a different view on numerous questions from Marshall, while Cassel at the same time has the highest opinion of Marshall's fine faculty of observation, strictness of argument, and nobility of mind, all displayed in the *Principles*.

It would, perhaps, lead me a little too far if I should now try to review the two systems in their relative position; I will only recommend the reader to make the comparison himself.[1]

In the second part the reader will meet mainly the same exposition of "The Nature and Necessity of Interest" as in the work of 1903, mentioned above. But the author expressly retracts his previous concession, that a society without any interest is possible. In the seventh chapter the questions of rent and prices of raw materials are treated very differently from Marshall. Cassel has four factors of production: Labour, Land, materials of Nature, and Capital.

At the end of the eighth chapter, on wages, Cassel has inserted a note on the regulation of wages by associations, treated in a book entitled *Arbetslönens reglering genom samman slutningar* (Stockholm: A. B. Nordiska bokhandeln, 1917), by a Swedish economist, Gösta Bagge. This work has, I understand, been considered by the most competent judges as the only thoroughly modern standard and up-to-date work on wages in practice and theory.[2]

The note in question, translated, runs as follows:—

"As has already been mentioned in the preface, my work has a very valuable complement in the work on the regulation of wages by means of organisations by the lecturer [at the University of Stockholm], Dr. G. Bagge. As this work has hitherto been published only in Swedish, it may be well to call attention to its chief contents by a few remarks. The method applied by Dr.

1 I should, however, call special attention to "The Principle of Scarcity" (in the third chapter) and "The Mechanism of Prices."

2 It is evident that Dr. Bagge has learnt a good deal from *inter alia* Pigou's *Wealth and Welfare.*

Bagge consists in his assuming a virtual displacement of wages and investigating its effects. This method, which resembles that employed in theoretical mechanics, is of the greatest importance for the dynamics of economic life, and can be applied especially to investigations of wages, as these are solely fixed by perpetual displacements of this kind, which again occur from a yet unknown state of equilibrium, viz. such displacements as are tentatively made by the labourers' and employers' organisations. In the first chapter the author studies the effects of an increase of wages upon the returns of the other factors of production, and answers the question in what degree this raising takes place at the expense of the other co-operating agencies in the productive process. In the second chapter the effects on the selection of the methods of production are analysed, and also the importance of the principle of substitution made clear. The reactions of an increase of wages upon the consumers are treated in the third chapter. The fourth chapter considers the effects upon the distribution of working power within the community. In the fifth chapter the author enters into an investigation of the causes and the significance of the non-uniformity of wages, whereupon, in the sixth and seventh chapters, he treats very thoroughly the problems of unemployment and supply of working power. As Dr. Bagge's theoretical method is combined with special knowledge concerning organised labour, their demands and their dealings in conference with their employers, and as he also is perfectly at home in the statistics of the prevailing Swedish collective bargaining, he has been well prepared for the subject and has succeeded in compiling a work that may be called a cornerstone of political economy, and from which further investigations into this most important territory will depart."

It must be left for another occasion to review the two last parts on "Money" and "Cyclical Fluctuations." A simple enumeration of the chapters will suffice, however, to give an idea of the contents: "Analysis of the Money System with regard to History"; "Banking Money"; "Value of Money"; "Foreign Payments"; "Characterisation of the Problem of Cyclical Fluctuations"; "Their Influence on Production"; "Influence on Work"; "Influence on the Durable Material Productive Agents"; "Influence upon Prices, Distribution of Income, and Supply of Capital"; "Influence on the Capital Market"; "The Determining Causes of the Cyclical Fluctuations."

The present work is in perfect accordance with economic principle in attacking the central problems of science very

directly; and it will probably, in more than one respect, be of *fundamental* importance. In a few cases, however, the author may have gone too far when criticising the prevailing theories, inasmuch as, *e.g.*, the theory of value will certainly still be helpful at least with regard to investigations into special domains of science.

FABIAN VON KOCH.

Djursholm, Sweden

Documenti Finanziari degli Stati della Monarchia Piemontese (Seculo XVIII.), raccolta pubblicata sotto gli auspici del Ministero del Tesoro: Serie I. Illustrazioni storiche e Documenti—Vol. III. Problemi monetari e bancari nei secoli XVII. e XVIII. By Professor GIUSEPPE PRATO. (4to. Turin, 1916.)

THIS instalment of the magnificently produced series of monographs upon various aspects of the economic history of Piedmont is fully worthy of its predecessors. It is a matter of regret that, in this country with its surpassingly rich stores of similar material, we have nothing which even faintly approximates it. The series is under the patronage of the Minister of the Treasury and the general editorship of the University of Turin. It is produced in royal quarto size with ample margins, so that the volumes represent economic history *de luxe*. Last, but by no means least, the editorship has been fortunate in securing the co-operation of scholars of acknowledged eminence. It is to be hoped that some time, even yet, our Government may move in a similar direction under the editorship of the British Academy or some similar body. Thus, instead of the capricious references to our past financial and commercial history which, while in many cases excellent as far as they go, are buried in unhandy blue books, it would be possible to secure a series worthy of the subject. Certainly, if that time comes, those in charge of the production of the series could not do better than to take that now under review as a model.

Much as Professor Prato's work is appreciated in this country, he has not yet secured the full measure of recognition which is his due. He is rapidly becoming recognised on the Continent not only as one of the leading economic historians of the time, but also as a writer who has probed very deeply into many of the

baffling and complicated problems which have arisen during the late war. The present volume is a tribute not only to his powers of research, but also to his literary skill. One wonders how the economic history of Piedmont during the seventeenth and eighteenth centuries, with special reference to banking and finance, should be written. The development of commerce and finance in particular all over Western Europe owes much to Italy, but Piedmont was left behind. The inertia of its people was almost proverbial; they had the agriculturist's instinctive dread of what was new, there was but little trade in exports, and, above all, wars were so frequent that the reign of Charles Emanuel I. was "a mere parenthesis of tranquillity." Thus, when schemes were framed for financial operations in the latter part of the seventeenth and during the eighteenth century, these were often based on the experience of other countries, *e.g.*, France, Great Britain, and Holland. It follows that a complete study must inevitably contain a large comparative element, and the thoroughness and penetration of this make the book of particular value, which is in no way indicated in the title. Not only actual enterprises in Piedmont are described, but also a vast number of schemes which never came to fruition in their original form. Large stores of MS. material and pamphlets have been drawn on for material, and many interesting and valuable conclusions emerge. It is only possible to quote a few specimens. In the scheme for a Company of Commerce in Nizza (1748) there was the extraordinary provision that ownership of shares was to be on the tontine principle, viz., that as each shareholder died his shares reverted to the surviving shareholders. In another no one might become a shareholder whose property did not amount to L.100,000. In a third it was declared that the holding of shares did not injure the gentility of those who subscribed. In a Portuguese company there was the provision—as Professor Prato slyly remarks, truly platonic—that each year L.500 should be spent on masses and L.500 on charity. Perhaps someone, like Ashton, may dig out from early records of companies some of the instances of humour and pathos which abound. Certainly several instances of the former will be found in this volume, as, for example, the memorial of Torretta, in which he apologises for his "villainous writing" and sends a "translation" of his memorial. Anticipations of later developments are numerous. Piedmont suffered from an excessive issue of paper money, and, as Professor Prato says neatly, "convertibility fell into desuetude"—a phrase that might be of service to some of our modern writers on currency

questions. Even Mr. Hartley Withers seems to have been anticipated in the *Tabella delle degradazioni della lira*, though in this case the date is the end of the eighteenth century and the lira that of Piedmont.

The comparative treatment of financial questions is the most valuable part of the book to English readers. It is packed with parallels, well digested, and with the inferences cautiously drawn. I know of no book where the financial organisation during the period has been so well focussed and clarified. On the vexed question of the origin of joint stock companies there is much that is interesting, though, wisely, I think, the author draws no definite conclusion as to a possible connection between the gild and later forms of association. He is certainly wrong in saying, no doubt by a slip, that the East India Company was a regulated one. In reality, the question as between regulated and joint stock companies has suffered by that fixing of names to which Locke drew attention as a frequent cause of fallacy. The two types were not totally distinct, strictly speaking, in the sixteenth century (and early in the seventeenth); there were companies mainly regulated and mainly joint stock, but a pure example of either is difficult to discover. The Merchant Adventurers of England is supposed to be the prototype of regulated companies, yet joint stocks were found within it. On the other hand, while the East India Company from its foundation was on a joint stock basis, at the same time it had traces of the regulated form. Freemen who did not adventure in any particular voyage, yet would be able to take part in certain of the transactions of the company.

Perhaps, if there is complaint to be made, it is that one has the impression that Professor Prato's own judgment is sounder than that of some of the authorities on whom he relies. A quotation taken from J. A. Hobson's *Modern Capitalism* as to the range of investment in England is so inaccurate as to be nonsense. If Thaller's generalisation as to the defects of the companies of the period is to be applied generally, as appears from the context, I should be inclined to doubt it. It is to be remembered we know very little about the methods and the mistakes of the contemporary one-man business or small partnership, and it is with these that a comparison should be made. It is easy for a later generation to see the mistakes of its predecessors. As Professor Prato indicates, it will not be necessary to wait so long for many of those of the last five years to be revealed. Even already those of Governments are naked, but not yet ashamed.

W. R. Scott

Economic Phenomena Before and After War. A Statistical Theory of Modern Wars. By SLAVKO SEĆEROV, Ph.D., M.Sc. (Econ.). (G. Routledge and Sons. 1919. Pp. 226. 10*s*. 6*d*. net.)

DR. SECEROV supports the theory that war is related to economic phenomena very much in the same way as a thunder-storm is related to the distribution of barometric pressure, though he does not use the analogy. Under certain circumstances there is absence of economic equilibrium; the balance is upset, the air is cleared, and newly distributed forces again have their regular effect. Like a skilled meteorologist he diagnoses the conditions which lead to the catastrophe and finds them latent in the progress of industrial civilisation. In an industrial nation capital increases and needs an outlet, which is found in the production of secondary (or non-necessary) instead of primary (or necessary) goods; "but the consumptive capacity of the community for primary goods is increasing on account of the rising standard of life of large masses, and the same is the case with secondary economic goods. The consumptive capacity of industrial communities for primary and secondary goods cannot be satisfied at the same rate, and they can therefore do this only if finding communities supplementing them with food and raw material and taking in exchange the secondary economic or capital goods." Hence we get a pressure for the discovery of foreign markets, a tendency to luxury in industrial countries, a relative neglect of the production of the means of life, and a pressure of population upon subsistence. "The production of secondary goods very soon overtakes the demand of a limited area, and therefore there is a need for supplementing the community by new areas producing primary economic goods," and equilibrium becomes unstable. "Equilibrium is effectively re-established by war," a pronouncement which may bring consolation to the critics of the peace treaties. Before a war may be noted: "(1) A decline of the rate of natural increase of population. (2) A rise of consumption per head. . . . (3) The disproportionate production of primary as compared with secondary economic goods and in consequence a rise of prices of primary goods." After a war are found: "(1) A decline of consumption and lowering of the standard of life. (2) A rise of the rate of natural increase. . . . (3) A proportionate rise in the production of primary economic goods and decline of secondary. . . ."

The theory, thus stated, is illustrated by very copious and laborious statistics relating to growth of population and changes

of consumption before and after the Franco-Prussian War, the South African War, and the Russo-Japanese War, and in the period 1910–14. Whatever may be thought of the sufficiency of the theory for accounting by itself for the phenomena, there is evidence that the statistics tend to show the six movements just enumerated; the correlations are established, if not the causation. From another point of view we may welcome the book as showing, in a singularly compressed form, how far world statistics are available for analysis on a grand scale; it appears that primary statistics, relating to population, production of food and raw materials, and external trade are generally forthcoming, but statistics of production of manufactured goods and luxuries, and of prices to the consumer are very imperfect.

The work is well documented and gives evidence of very laborious preparation. The author, who is a Serb, has evidently found linguistic difficulties and is not always easy to follow; but a reader, who pays close attention to his line of reasoning, will find it logical, and will be rewarded by the view obtained of general quantitative economic movement.

A. L. BOWLEY

Economic Effects of the War upon Women and Children in Great Britain. By IRENE OSGOOD ANDREWS and MARGARET A. HOBBS. (New York: Oxford University Press. Pp. 190. 1918.)

THIS little volume, issued under the heading of "Preliminary Economic Studies of the War" by the Carnegie Endowment for International Peace, is a useful general review, from across the Atlantic, of the industrial effects of the war on English women and children. It is based chiefly on official sources, the printed reports issued by many Government departments, supplemented by special reports forwarded to America and given verbally by representatives of successive "missions" sent to the United States during the war. From this material, with certain additions from outside interests as varied as the British Association and the National Federation of Women Workers, we have a readable and quite unbiassed account of the supply of women's labour for new work during the war, their training, their control under the Munitions of War Act, the progress of labour dilution, the extension and partial restriction of hours of labour, the development of welfare work, and the special effects of the war upon child labour and life, up to the autumn of 1917.

There is a brief but good chapter on women's wages, in which

the authors have threaded their way with much skill through the labyrinth of the women's wages orders of the Ministry of Munitions, and the different forms of "substitution." Very much less difficulty was anticipated in 1917 in connection with the substitution of women for men in America, partly because it appeared likely to take place on a much smaller scale in proportion to the population of the respective countries, partly owing to the much smaller strength of Trade Union restrictions in the States. "Accordingly," conclude the writers, "perhaps the most valuable conclusions America can draw from the situation is the somewhat general one of the wisdom of securing the co-operation of labour in making industrial changes by which it is vitally affected" (p. 67).

The report is admittedly "preliminary," and would probably appear in different form if written in 1919. On the whole the authors escape with considerable success one pitfall of writing contemporary history (and especially industrial industry) from documentary sources—that of losing proportion. They have, however, very much overweighted the oppressive influence of munitions tribunals on the woman worker, and the figures quoted in illustration on p. 88 are quite fallacious, unless "1916" is a misprint for "1915."

There are a certain number of other inaccuracies, though they are not of sufficient importance to detract seriously from the practical value of the book.

Thus, the National Advisory Committee did not merge in the "Central Munitions Labour Advisory Committee" in 1915 (p. 50); the first issue of the Order under D.O.R.A. for the prevention of "labour stealing" was in April, 1915, not, as is implied, in February, 1917 (p. 72); Sunday work was not "practically abolished" in munition works on the North-east Coast in 1915 (p. 118); the munition-workers' hostels, especially those for women, were much more successful than the account implies. And, in discussing the effects of strike prohibition (p. 83), the figures selected give, unintentionally, a wholly wrong impression. If the period of the first six, instead of the first five, months of the year were taken as a basis of comparison, it would be seen that, by the *Labour Gazette* figures, the strike statistics for 1917 were very much larger than those for 1916, and that in the engineering, shipbuilding, and metal trades the days lost in the first period were more than twice as many as those lost in the corresponding period of 1914.

C. V. BUTLER

Co-operation in India. By HENRY W. WOLFF. (London: W. Thacker and Co. Pp. 346.)

MR.. WOLFF has written for the instruction of people in India, and especially of officials of the Indian Government. This is evident from the fact that a knowledge is presupposed of the history and scope of the co-operative movement in India and of the provisions of the Acts of 1904 and 1912. It is also indicated by the rigorous exclusion of sterling in favour of rupees and by the frequent employment of vernacular terms. Possibly this is carried to an unnecessary length when "the late Vicar of Ealing" is represented as addressing a peccant parishioner as follows: "Why do you not repay me, when you pay your kists so regularly to your Self-Help Society?"

Registrars of co-operative societies in India could probably find most of what the book contains expressed or implied in the author's well-known treatise on *People's Banks*. But when the last edition of that useful work was published in 1910 co-operation had only been at work in India for four and a half years. During the subsequent nine years Mr. Wolff has watched the growth of the movement, which may fairly be described as remarkable, and has kept himself in close touch with local developments. It is well that his final conclusions should have been put on record, for he has every qualification except personal knowledge of the country for assuming the *rôle* of adviser. The present book may be regarded as consisting of sermons by a very competent preacher of the pure gospel of co-operation, and, when this is understood, a little discursiveness may be excused. But, having printed on pages 213 and 214 an extract from a registrar's annual report, it was hardly necessary to repeat it on page 215.

In the special chapter in *People's Banks* devoted to "Co-operative Credit in India" statistics were quoted showing the position in June, 1909. There were then in existence 2,008 societies with 184,897 members and a working capital of 80¾ lakhs (£537,856). Mr. Wolff considered this "a record which has nowhere yet been equalled within the very first stage" (*People's Banks*, p. 519). But the figures are insignificant compared with those for 1918, when the latest official return records 26,465 societies, 1,055,244 members, and a working capital of 1,440 lakhs (£9¾ millions), of which only 1·6 per cent. (£155,000) represented money advanced by the State.

As in Germany so in India the first task of co-operation was to provide credit on reasonable terms to peasants and artisans, and to prove that the character of the applicant and of his sureties

and the proposed employment of the money might safely be accepted as security for repayment. The business of nine out of ten societies is still the making of advances to their members, but some have begun to combine with their principal function the purchase of implements and seed, and even of certain household necessaries. Other societies have been started whose special object is the co-operative insurance of cattle, the purchase of raw material for weaving, etc., or the sale of crops and manufactured articles. These are developments of which Mr. Wolff heartily approves, and he would welcome the remark of the Panjab Registrar that "the old idea that co-operation is money-lending has disappeared, and the fact that we are engaged upon the revolutionary task of rural reconstruction is becoming more fully recognised."

While not slow to point out what he considers deviations from the straight road, Mr. Wolff is prepared to approve, and even to applaud. Official control seems to him a drawback only to be accepted on the score of necessity arising from the prevailing illiteracy of the rural population. He acknowledges the care taken to avoid the evils which State aid has in his opinion produced in Europe. On his advice the Indian Government rigidly limited the amount and duration of financial assistance. Moreover, as Mr. Wolff points out, unlike the Governments of France and Germany, it has had no political axes to grind, and its sole object has been the welfare of the movement. But he would like, as soon as possible, to limit Indian registrars to the function performed by the Registrar of Friendly Societies in England, namely, "to see that the precepts of the law are carried out, and that balance-sheets are issued, and that those balance-sheets are correct." Local inspections to ensure that the business of a society is conducted with care and on co-operative lines should be the function within each society of a Council of Supervision, and outside it of officials appointed by unions and federations of unions. Admittedly Councils of Supervision are at present impossible. Many societies belong to no union, and, where unions exist, their chief function in some parts seems to be the guaranteeing of advances made by central banks to local societies. This is condemned as an abuse, on the ground that it weakens the responsibility both of the receiving society and of the disbursing bank.

The day when Mr. Wolff's ideal can in India be realised is probably a distant one. A few years ago it was doubtful whether the feeble co-operative credit movement in England owed any-

thing to the Registrar except an elaborate form of annual statement, which some not unintelligent local secretaries were wholly unable to tackle. Possibly something simpler has since been evolved. But it is certain that co-operation would never have taken root in India had the action of the State been limited to a yearly audit in a central office, and that it would collapse if any attempt were made to precipitate the solution which Mr. Wolff desires.

There is a small error on page 44. Mr. (now Sir Edward) Maclagan was not the author of the Panjawar experiment. Its interest lies in the fact that it was a purely unofficial movement started in his own village by a Rajput headman six years before Mr. Maclagan founded two rural banks in the Multan district and twelve years before the Act of 1904 was passed.

J. M. Douie

Effects of the War upon Insurance, with Special Reference to the Substitution of Insurance for Pensions. By William F. Gephart. (New York: Oxford University Press, American branch. Pp. 298.)

This is a volume issued by the Carnegie Endowment for International Peace, and is one of the preliminary economic studies of the war. It was written, evidently, some time before the conclusion of the war, and the statistics, therefore, are far from up to date. All kinds of insurance are dealt with, both American and foreign. The American Army insurance policies, which were adopted in order to avoid a repetition of the experience with pensions after the Civil War, are fully explained. Presumably a further volume will be issued in which the full effects of the war on the various kinds of insurance business can be more definitely shown, and it may be hoped that the alteration in the value of money, which is a very big war effect, and to which some reference is made, will be further discussed.

C. F. Bickerdike

Foreign Exchange Explained. By Franklin Esher. (New York: The Macmillan Company. Pp. 219.)

This is an elementary manual, explaining the general principles and a good deal of the practical working of foreign exchange business, but not concerned with the economic theory of inter-

national trade. A good deal of attention is given to the different kinds of bills, and reproductions of some of them are given. The various ways in which the import business of New York is conducted is explained in some detail. Disputable questions which would involve going into economic theory are not dealt with. The markets are all dealt with on the pre-war basis of substantially gold currencies, the only exception being the silver-using country of China, to which a chapter is devoted. The reasons why sterling drafts on London are so much used in financing trade between other countries are rather briefly discussed, but the essential point is clearly shown, that it is mainly a question of the rate of discount, together with the existence of a large competitive market for all the world's currencies. The war has led to an increased use of dollar credits in connection with the trade of the United States, and the opinion is expressed that some of that has come to stay, but there is a commendable absence of vague phraseology about "capturing the international money market." In fact, one might have reasonably expected more confident predictions regarding the future trend of international trading finance, in view of the considerable change which must have taken place in regard to American ability to compete with London for the business of lending credits for international transactions.

C. F. BICKERDIKE

NOTES AND MEMORANDA.

THE READJUSTMENT OF GERMAN FINANCE BY MEANS OF A CAPITAL LEVY.[1]—II.

As in the case of Professor Diehl's article, we can here reproduce in part only Professor Heinrich Dietzel's article, entitled "Abbürdung der Kriegsschuld."[2] He opens the discussion of his subject, the discharge of the war debt, by pointing out that the choice between a huge non-recurring levy on property and taxation falling heavily on the non-propertied classes for a long period, is not the only alternative. The contribution of the propertied classes might be extended over a period of years. Considering first the levy for the extinction of debt from the standpoint of economic expediency, he finds that the levy has against it only the great disturbance which it would occasion; otherwise, its purely economic effect would be much the same as that of taxation for the service of the debt. He then goes on to criticise the project from the standpoint of equity in taxation. A large part of this criticism is reproduced below.

A levy on property cannot but operate with extreme irregularity, for one reason because the *mobilisation* of the amount due would be much easier for some classes and groups than for others, and would injure their economic position less.

This mobilisation can be effected either by the sale of property or by borrowing on it.

It is common to both methods that the future *income* of the contributor is diminished: if a man parts with real estate to the value of 100,000 marks, he is poorer by so-and-so many marks which he would have derived from the management of his property; if he takes out a mortgage of 100,000 marks, he is poorer by the so many marks which he has to pay the mortgagee.

The future income sinks also if instead of a levy once for all for the extinction of debt it is recurring taxation for the service of the debt that presses; to this extent—as should never be left out of sight in discussing the issue: single *versus* recurrent payment—

1 For the first article see ECONOMIC JOURNAL, March, 1919.

2 Published in *Die Neuordnung der deutschen Finanzwirtschaft* (Schriften des Vereins für Sozialpolitik 156 Band), Duncker und Humblot, 1918.

there is no difference between the "terrible end" and the "endless terror."[1]

The loss of income, however, differs in amount according as the levy is paid in the one way or the other; and it makes a difference whether the State has recourse to recurrent taxation or to the single levy; in some circumstances the difference is very great.

That a levy on property would arouse opposition because of the difficulties of mobilisation was foreseen by Ricardo. After emphasising the point that a man "would be equally rich whether he continued to pay £100 per annum or at once, and only for once sacrificed £2,000," he goes on to ask who will lend the £2,000 to the man who has to pay it. "The answer is plain: the national creditor will want an investment for his money, and will be disposed either to lend to the landholder or manufacturer, or to purchase from them a part of the property of which they have to dispose. To such a payment [as that of the levy] the stockholders themselves would largely contribute."[2]

Here we have laid bare the inner nature of the process which goes on in the national economy as a consequence of measures taken for the liquidation of public debt. Since on the side of the national creditors just as much money is set free as is required for the payment of the levy, there is no manner of doubt that the contributors *as a whole* would be put to no strain.[3] Yet the man against whom "one enters the lists only hat in hand" (Lassalle) forgets to differentiate, omits to inquire how the levy would hit the different classes or groups of contributors; he thus overlooks the fact that this impost would necessarily operate unequally. The answer which he gives is clear and in itself correct, but it does not meet the argument from mobilisation.

1 G. Gothein in the periodical, *Hilfe*, of January 25th, 1917.

2 Ricardo, *Principles of Political Economy and Taxation*, Ed. 3 (1821), Chap. XVII., p. 288.

3 No one in our country seems to see that the policy of debt extinction comes to this, that—as I have expressed it above—the creditor of the State becomes the creditor of the contributors or their successor in the ownership of their property. Who now reads the "abstract" Ricardo? Who reads him even as far as Chap. XVII., where, under the head "Taxes on Other Commodities than Raw Produce," the best is to be found that has as yet been said on the economic nature of the contracting and the extinguishing of public debts? In both camps, that of the opponents as well as of the advocates of the levy, there has been a failure to understand that "to such a payment [as of the levy] the stockholders themselves would largely contribute." I have often met with the emphatic assertion that it is "out of the question that the levy should be paid in cash"; that out of the national wealth "nothing approaching so large a sum could be extracted in cash, even under the severest application of the taxation screw." Were, then, the Loans subscribed in cash?

1. *Sale of Properties.*

Up to the present—apart from that wholly misleading argument as to the paralysing of the "reproductive power of the national economy"—the chief part in the campaign against the levy has been played by the objection that "forced sales of land, houses, factories, etc., on the largest scale would be the inevitable consequence," that in numberless cases "mutilation of working capital" would have to be feared.[1]

But if the argument from mobilisation is put so; if the sale of *productive* property is represented as the method of satisfying the Treasury which would be most commonly forced upon the contributor, then the answer is easy. The advocates of the levy can point out that no landlord, manufacturer or trader thinks of proceeding in that way if any other mode of extricating himself is open to him. By the sale of productive property the system of management is thrown into confusion, the scale of operations contracted, and profits correspondingly diminished. Whoever can borrow, at a moderate rate of interest, the sum demanded from him by the Treasury, surely gives the preference to this course.

Assume a manufacturer has 100,000 marks, all locked up in his business: as the rate for properties of this amount is 10 per cent.,[2] his liability under the levy is 10,000 marks. If he now sells for 10,000 marks a part of his factory buildings or of his machinery, then—if he has hitherto worked with a profit of 10 per cent.—he loses income through the levy to the extent of 1,000 marks. But if he can borrow the 10,000 marks at 5 per cent. or 6 per cent., the loss is only 500 or 600 marks. Ricardo is again entirely right when he represents mortgage as the normal method of meeting the tax obligation.[3]

That every man of business would be at the greatest pains to avoid the "mutilation of his working capital" is beyond question. If a wholesale disposing of estates, etc., is predicted as an "inevitable consequence" of the levy, it is because something is assumed which ought first to be proved, namely, that borrowing would be impracticable, or possible only at a rate of interest exceeding the rate of profits. The situation which would really arise is treated of below. It is enough here to observe that in some cases the

1 Friedberg, "Abbürdung von Kriegsschulden." In the *Berg. Märk Zeitung* of January 8th, 1917.

2 Here, as in what follows, it is assumed that the levy begins at 5 per cent., rises to 10 per cent. for medium properties, and to 20 per cent. and over for large properties.

3 *Cf.* the quotation given above.

policy of debt extinction certainly would lead to the sale of productive properties. This method would often be more rational than mortgage—*e.g.*, in the case of many estates beyond the Elbe which now suffer from plethora of land.[1] But in general mortgage, at the normal rate of interest, would be the more rational course.

Property consisting in articles of consumption—this question would arise for rich persons owning valuable jewels, pictures, statues, Persian carpets—would also be sold only exceptionally. For if such sales took place on any considerable scale there would be so violent a fall of prices in the art market that only a few would employ this method of meeting their liabilities.

On the other hand the policy of debt extinction would infallibly lead to the sale of interest-bearing property [2] on a very large scale. The owner of securities, obligations, *e.g.*, mortgages,[3] would discharge his debt to the Treasury by realising as much of these as was necessary; unless, indeed, he calculated on a rise in value—borrowing would then again become the more rational method.

Those who hold war scrip hand it over in payment; for these this is the simplest and cheapest way out of the difficulty. The State, indeed, must favour this method of mobilisation by paying a higher price than the current quotation on the market.[4] But only a

[1] The great and good cause of home colonisation would receive an impetus from "amputation"; to this extent it would certainly deserve to be credited with a fortunate economic result.

[2] By this I understand all property which, in contrast with productive property, plays no active part in the carrying on of a business, so that its surrender entails no diminution of profits.

[3] Interest-bearing property includes also lands and houses let to tenants. To sell land leased to another is in general less disadvantageous economically than to part with land farmed by the owner; to part with a house let to another is a smaller loss than to sacrifice a part of one's factory buildings or machinery But the sale of interest-bearing properties of this kind could hardly assume great dimensions; the same reason would apply as in the case of articles of consumption. Where a mortgage is possible (*cf.* below), the proprietor would raise one.

[4] G. Gothein (*loc. cit.*) thinks that the levy "would necessarily be for the most part paid in War Loan! for the sake of favourably influencing its price, the 5 per cent. war scrip would, as in the case of the war profits tax, need to be reckoned at par." Would this be really necessary?

The contributors have an interest at the outset in using their war scrip for payment so far as they can; they thus avoid the realisation of other securities, the market value of which might be depressed, and they equally avoid the other, more costly, methods of mobilisation.

And since after the war—for how long a time cannot be prophesied, but certainly for quite a series of years—the market value of war scrip would stand several points below par (*cf.* my article, "Krieg und Sparpflicht," *Conrad's*

part of the contributors have war scrip; only a small part have as much as will pay their contribution to the levy. Although the war debt is more highly "democratised" than the peace debt was before it, yet—as is obvious from the statistics—a quite considerable proportion of war scrip is concentrated in a few hands. The number of those who can effect the necessary mobilisation by the easy method of handing over war scrip forms only a negligible quantity.

The man who has other securities, mortgages and so on, at command must begin by looking for a purchaser. But—except where he calculates upon a rise in value—it is beyond question that the sale of such assets commends itself to him in preference to the mutilation of his productively invested capital, as a rule also in preference to borrowing on the security of it, which places him in a possibly embarrassing position of dependence.

That securities and obligations would be offered for realisation in huge masses, is certain. Would, then, the levy, which has been described as the "annihilation of property," result in a fall of quotations all along the line, and a general depreciation of mortgages?

By no means. For those from whom the State has to buy back the remainder of the 50 milliards by which the debt is to be reduced must surely reinvest the money which they receive.[1] The narrower the limits within which payment by war scrip is confined—and these limits will be the narrower the larger the proportion of the total war scrip which is held concentrated in a few hands—the greater no doubt will be the extent to which other kinds of holdings will be realised by the contributors. But just so much greater, on the other hand, will be the need for reinvestment on the part of the paid-off creditors, those whose holding in war scrip exceeds their liability under the levy. If the contributors, then, for the purpose of meeting their liabilities throw upon the market a mass of Consols, obligations, secured bonds, and shares, the paid-off creditors will be there to take them up.

The result to be feared would not be a general depreciation, but a possibly deep and far-reaching dislocation of values. Securities for which the paid-off creditors had a special "fancy" would rise in response to their demand; the others would fall through

Jahrbuch, 1916, July No.), such a concession would cost the Treasury fairly dear. If it were not to involve an indefensible privilege for the holders of war scrip and impose an additional burden on the mass of contributors, the former would have to pay at a higher rate—the higher, the greater the difference between face value and market value—supposing the loans redeemed at par and the levy still required to produce 50 milliards.

[1] *Cf.* the quotation from Ricardo given above.

being offered in too large quantities by the contributors. The man who has the good fortune to be able to realise the former comes off much better than the man who is unlucky enough to have to realise the latter. Assume that A and B—both of them mere *rentiers*—have each of them property worth 400,000 marks *before* the levy; they have to pay 80,000 marks each. But A, having on hand just the kind of securities favoured by the paid-off creditors, nets a profit of 2,000 marks; B books a loss of 2,000 marks: *after* the levy—as a consequence of the effect produced by it on the security market—B's property is less than A's, although the Treasury has extracted the same sum from both.[1]

The levy works unequally. It costs those least who clear their liability with war scrip. Those who are compelled to place their securities on the market pay in general more; and the group B, for which the market is unfavourable, pay possibly a great deal more than the group A.

But as a whole the *rentier* class, whose property as a rule can be realised easily and at little cost, would be a privileged class. The levy would impose upon it smaller losses of income than upon the majority, the *entrepreneur* class, which must either borrow or have recourse to the *ultima ratio* of selling working capital.

2. *Borrowing.*

While the "great seisachtheia" would create within the *rentier* class an unexampled necessity for realisation, it would equally create within the *entrepreneur* class an unheard-of need for credit.

But just as little as the wholesale realisation of securities would bring about a fall of quotations along the whole line, so little would wholesale borrowing bring about a general rise in the rate of interest.[2] For hand in hand with the gigantic demand for loans which would be raised by the contributors to the levy there would go a gigantic proffer of loans on the part of the paid-off creditors. A large proportion of the latter would be obliged to lend to the former in order to put to profitable use the sums received by them from the State on the sale of their war scrip.

If these paid-off creditors began by insisting on reinvesting

1 If mortgages attract the preference of the paid-off creditors, those contributors who have invested their funds in mortgages profit by the rise in values, and holders of securities come off on the whole worse. In the reverse case the former are hit harder than the latter.

2 The fact that the opponents of the levy have not yet brought on the scene the spectre of an increased rate of interest is probably due to their assuming without examination that the *entrepreneur* class would respond to the levy by the "mutilation of working capital"; *cf.* above.

their liberated capital in securities, a boom would follow such as history has never recorded. Imagine for a moment what it would mean if within a short time the Treasury were to take off the market a few dozen milliards of War Loan.[1] The sellers of Loan would soon be tired of scrambling for other securities still left on the market; they would become willing to lend—directly or indirectly through the medium of credit institutions—to those contributors who would wish to meet their liability to the Treasury by borrowing.

The wholesale borrowing set on foot by the levy would in itself bear no character of menace; it would simply come to a transformation of the national war debt into a series of private debts. Money to lend would be there in abundance, enough for the whole of those who wanted it. Only—some would obtain it on far more favourable conditions than others.

Within the *entrepreneur* class the levy would operate still more unequally than within the privileged *rentier* class; for the former, the levy would mean a greater, generally a much greater, sacrifice than taxation imposed to pay interest on the public debt.

At the time when the State contemplated taxing successions at quite moderate rates—1 to 1½ per cent. in the case of small successions—a storm of indignation arose over the "nail in the coffin of the small-farmer class," which was supposed to be threatened with interest-slavery. But by the projected succession duties of 1908 only a small fraction of the *entrepreneur* class would have been obliged to borrow, and that only to a small extent: the tax was intended to bring in less than 100 million marks.[2] A levy on property such as that now proposed, with rates varying from 5 to 20 per cent. or more, would force millions of farmers, etc., to seek loans to the value of many milliards.

There is certainly a difference between the "tax on widows and orphans" and the property levy. The first would have involved an additional burden on the contributor, the second would not. For the man who because of the levy assumes the obligation of paying interest to a private person rids himself, thanks to the levy, of the obligation of paying taxes for the provision of interest on the State debt. If he obtains a loan at 5 per cent., the rate of interest borne by the State debt to be cancelled, the levy, though it has entailed "interest-slavery," makes him no poorer than recurrent taxation would have done. But will he obtain such a loan?

If, now, his income does not shrink in the sequel, he is cer-

[1] *Cf.* above.

[2] *Cf.* my work, *Reichsnachlasssteuer oder Reichsvermögenssteuer*, 1909.

tainly "good" for the interest; his liability to pay interest, at 5 per cent., binds only so much income as is set free from national debt taxation. If he can pay these taxes to the State—and the tax-collector sees to that—he can do his duty by his private creditor. And if his property does not shrink in the sequel, he is also "good" for the capital. In short, if his economic position remains the same he becomes no less worthy of credit; nor does he lose the possibility of obtaining credit, since, as has been said already, money to lend is there in abundance.

Suppose a farmer has 40,000 marks. Since for properties of such dimensions the rate is 10 per cent., he is assessed for the levy at 4,000 marks. For the purposes of national debt taxation he would have been assessed at 200 marks (we suppose, here as elsewhere, that the single levy and the recurrent tax are calculated on equivalent bases, so that the single payment exacted by the first is equal to the capitalised value, at 5 per cent., of the annual payments exacted by the second). If he obtains the 4,000 marks at 5 per cent., the "property-annihilating law" pinches him no more severely than the "income-annihilating tax." Just as he would have been compelled to spare for the Treasury the 200 marks claimed by the latter, so he can scrape together the 200 marks which, as a consequence of the former, he owes to a private person as interest. If the lender to whom the farmer applies under the stress of the levy is satisfied that the economic position of the borrower will remain unchanged in the future, will in no case become worse, then he can afford to lend at 5 per cent.

But the bright and the dark lots are hidden in the womb of the times. Therefore a loan at 5 per cent., perhaps even less, will be received only by such *entrepreneurs* as can give first-class security. The others will either obtain loans only at rates exceeding 5 per cent. or will not obtain them at all. The weakest contributors will be driven to the "mutilation of working capital."

Most favoured, then, within the *entrepreneur* class would be that group which can clear its liability under the levy by means of a first mortgage.[1] Such mortgages offer the paid-off national creditor a fully satisfactory substitute for his war scrip; as a consequence of the abundance of money to lend and the boom in securities (*cf.* above) they may possibly be obtainable at a lower rate than 5 per cent. But this group of *beati debitores* is only a thin sprinkling—about as thin as that of the *beati possessores* who can pay in war scrip or realise other securities at favourable prices.

[1] The Lombard transaction would in this connection be only a second-best expedient. *Cf.* below.

A harder situation is that of those contributors who can meet their obligations to the levy only by means of second mortgages. Such mortgages will indeed, as a result of the abundance of money, be easier to raise than in a normal state of the money market. But this group, lacking the advantage of institutional credit, will be put to considerably heavier expense by the levy; it must pay a higher rate of interest and suffer a greater loss of income.

The bulk of the *entrepreneur* class will find itself in a still more delicate situation. In some cases there is no real property, at least none that is mortgageable; a great many artisans and small traders work on their own account in rented premises, manufacturers mostly own their works, but mortgages are only exceptionally granted on factories.[1] Where such property exists, on the other hand, its mortgageable capacity has probably been already utilised to the utmost; for it is by this means that capital needed for the conduct of a business can regularly be obtained at the lowest cost and with security against an untimely demand for repayment at short notice.

For the purpose of obtaining loans, the middle class of business men will apply to the co-operative societies formed for their benefit. But these societies are not adapted to the granting of credit for such large amounts and for such long periods as will be required. For this class the rate of levy is 10 per cent. or more, and long credit will be necessary to permit gradual amortisation out of future profits. It is possible, indeed, that deposits in the Raffeisen banks might swell to a huge extent in consequence of the measures taken to liquidate the public debt; many a small farmer, artisan, shopkeeper possesses, thanks to high war profits, more war scrip than he needs to pay his share of the levy; the purchase money for the surplus, which the Treasury must buy on the market, will be partly or wholly deposited in Raffeisen banks, etc., at least temporarily, instead of being invested in securities now standing at highly increased prices. But if the co-operative societies are to be faithful to their traditional programme, they will not be at liberty to grant masses of loans, each for thousands of marks, each for ten years or more. To tie up in this way other people's money, which possibly may be withdrawn in a short time, is a thing to be done only in isolated, most carefully chosen cases, for the benefit of only a few out of the many who will besiege their offices.[2]

1 *Cf.* J. Steinberg, *Bank- und Börsenwesen*, p. 32.

2 On the question whether such tying up of money on a large scale is, after all, feasible, see below.

Suppose a cabinet-maker and a watchmaker—like the farmer of our previous example—are worth 40,000 marks each; in the one case this amount is sunk in machinery, wood, furniture, in the other case it is represented by shopfittings and stock-in-trade. For the purpose of meeting the levy they both apply for a loan of 4,000 marks (10 per cent. on 40,000 marks) from the credit society with which they have a long-standing connection, the management of which knows them as competent, thrifty men of business. But, as they have no real property, a mortgage is out of the question; a Lombard transaction is possible only for the cabinet-maker, and for him only in respect of his wood, not of his more valuable furniture. The credit society might perhaps lend them both the 4,000 marks, even without security, if they alone needed credit to that amount and for so long a time; if a large proportion of the membership were not simultaneously in need of money for the same cause. As things stand, it may possibly allow a lower rate of interest than usual, in view of the plentifulness of money due to the liquidation of the State debt. However, it will lend only to a part of the applicants, and to that part only on terms of repayment on demand or at short notice. It must impose this condition, for the deposits now being received by it in unusual volume are themselves withdrawable at short notice or none. But this condition only a minority can venture to accept, since the loan to be raised amounts to 10 per cent. on the borrower's whole property, which is difficult to realise and entirely locked up in his business.

That is to say, merely a part of the artisans and small traders, as also of the small farmers, would obtain the desired loan from their co-operative societies. The remainder would be compelled to seek help from a private person; who might possibly be open to reason in the matter of notice, but would in return screw up the rate of interest somewhat sharply. Not all, however, would find such a lender, or would only find one who asked too much for his assistance: part of this middle stratum would be unable to escape the costliest and most irrational method of mobilisation, the sale of working capital.

The upper stratum, too, of the *entrepreneur* class has already for the most part exhausted the resource of a first mortgage, in many cases that of a second mortgage as well. As a rule, manufacturers and merchants must have recourse to bank credit.

Suppose a spinner worth 400,000 marks, almost all of it in the form of factory buildings, machines, stocks of material and com-

pleted products; his reserve of money and securities is insignificant, his premises burdened up to 70 per cent. of their value. For properties of the dimensions concerned the rate of the levy is 20 per cent.; he therefore owes the Treasury 80,000 marks. Will he be able to borrow it?

Now a loan of 80,000 marks to a manufacturer on a large scale involves the bank—with which he has had an account for many years, which is fully satisfied as to his soundness—in relatively less risk and relatively less expense than twenty loans of 4,000 marks each to small business men would occasion their co-operative society. The spinner's plant is a more valuable and more easily appraisable security than the contents of the cabinet-maker's workroom or the watchmaker's shop; his cotton stock is a much better subject f r a Lombard transaction than the cabinet-maker's wood stock, composed, as the latter is, of many varieties whose price is not, like that of cotton, quoted daily in the market reports. The bank is in a position to lend more cheaply than the co-operative society; and as the market is flooded with money to lend it has good ground to be as accommodating as possible.

In general the upper stratum would obtain loans more easily and on more favourable terms than the middle stratum. But the majority of this upper category—those whose whole property is locked up in their businesses, as in the example of the spinner—would be compelled to pay a higher rate of interest than the privileged minority to whom the resource of a mortgage is still open.[1]

The banks, like the co-operative societies, will pass under the strictest review the legions of would-be borrowers forced upon them by the levy. They, too, operate with the money of others, which they command for the moment in an exceptionally abundant flood that possibly may soon ebb; they, too, will insist on the right of recalling their loans on demand or at short notice. Thus many merchants and manufacturers, like many of the middle section, will be faced with a dismal alternative: recourse to a private lender who, if he agrees to supply the large sum required, demands considerably higher interest than the institution; or the still more costly "mutilation of working capital."

To summarise: A proportion of the 50 milliards by which the public debt is to be lightened would be cleared by the paying in

[1] The maxim, "Un bon découvert vaut mieux qu'un médiocre couvert," is certainly not without its justification. But it becomes more and more questionable the higher the tide of borrowers at any particular time.

of war scrip as contributions to the levy; a further proportion by the sale of securities and obligations; a still further proportion by loans obtained from institutions on mortgages and other guarantees; the remainder by private loans and the sale of productive property.

In earlier days these last two methods, so much the more painful for the contributor, would have played a much more extensive part. Let us transport ourselves back to the 'seventies, when the project of the "great seisachtheia" was mooted on the other side of the Vosges: the money market was then far less able to withstand a crisis than now; mortgages could hardly be obtained except from private persons; farmers, artisans, small tradesmen were provided with only a small number of co-operative societies; the banks had neither the strength nor the inclination to grant personal credit for large amounts to the upper class of *entrepreneurs*; the real property market was still on a footing of entirely inadequate organisation. In those days a property levy at as low a rate as 5 per cent.—as was proposed by Carayon-Latour and Philippoteaux—might perhaps, as Leroy-Beaulieu warned, have "delivered half the population into the hands of the usurers"; in those days it would have led inexorably to "forced sales of estates, houses, and factories on the very largest scale."

To-day the process of "amputation," taken on the whole, would work far more leniently. But even to-day the benefit of disburdenment would be bought at what for certain classes and groups would be a grievously heavy cost.

Ricardo is no doubt entirely in the right when he emphasises the fact that the "heroic step" (Brentano) would impose no severer sacrifice on the contributors *as a whole* than the recurrent payment of the taxes occasioned by the public debt: in the abstract, the procedure of liquidation is of no importance for either private or public economy;[1] thanks to the levy, the yearly payments cease; the national powers of consumption and capital-formation are not impaired. But, in the concrete, it may make an enormous difference to the contributor whether the "repartition" of the burden of the war debt is effected by the levy or by annual taxation. That the levy would cost one contributor much more than another, that it would cost many far more than national debt taxation, may be illustrated by one final numerical example.

Imagine a series of contributors, each worth 40,000 marks. Their obligation under the levy amounts in each case to 4,000

[1] Except for the disturbance of economic conditions.

marks (10 per cent. on the property); their contribution to annual national debt taxation would in each case be 200 marks (½ per cent. of the property).

One of them now, we will suppose, can discharge his debt of 4,000 marks to the State by offering in payment 5 per cent. war scrip to that amount. Another can realise securities or obligations to the same amount, which have hitherto brought him in 200 marks a year, without losing anything through an unfavourable market. A third takes out a 5 per cent. first mortgage to the same amount. Each of these three is deprived by the levy of 200 marks of future income; as far as their spending and saving power is concerned it is indifferent whether the State strikes with the levy or with an annual tax; the loss of income is the same in the one case as in the other. A fourth, however, can raise the 4,000 marks only by taking out a second mortgage at 6 per cent., a fifth by obtaining a loan at 6 per cent. from a co-operative society or a bank. These two lose 240 marks income by the levy; nominally, they pay at the same rate as the first three, but in point of fact they are hit 20 per cent. harder; the "property-annihilating tax" diminishes their economic well-being by 20 per cent. more than the "income-annihilating tax" would have done. A sixth finds himself compelled to borrow from a usurer who extorts 8 per cent. from him; the levy costs him as much as 320 marks of income; for him it makes still more difference whether the policy of debt extinction is put into effect or not. A seventh, finally, finds himself under the *dira necessitas* of selling for 4,000 marks a portion of his working capital from which he has hitherto drawn a profit of 10 per cent.; this man loses 400 marks income by the levy, twice as much as the privileged minority, twice as much as national debt taxation would have cost him.

If we state the example in figures appropriate to the upper instead of the middle stratum, the differences in loss of income become highly magnified, and the fact that the levy must result in injustice stands out still more clearly.

How many contributors would be counted among the privileged minority, how many among the *misera contribuens plebs*, how many among the ranks of the most severely overburdened, is a matter of uncertainty; what *is* absolutely certain is that the levy would operate with very great inequality, and that to a considerable proportion of contributors it would cause more loss than annual national debt taxation.

Perhaps it may be answered that if the State did not demand the levy all in one payment, but, after the precedent of the 1913

levy, in three or more yearly instalments, the argument from mobilisation would lose its force.[1]

So it would appear at first; but the appearance is deceptive. In the case of the National Defence Levy, which it was possible, given a little of the ascetic temperament, to cope with out of income, the division into three meant an alleviation for all. But in the case of the levy now proposed, which must be met out of property, the partial postponement will benefit mainly those who are best off anyhow, the privileged minority who can clear the levy by realising securities or highly valuable articles of consumption. If these have ample leisure to turn their possessions into coin, the dislocation of values on the security market is confined within narrower limits and the art market is less violently disturbed.

On the other hand, the great majority, that preponderating part of the *entrepreneur* class which is compelled to borrow, would derive but little benefit from a division into three instalments.[2] For, if the lender regards the contributor as worthy of credit, he will allow him the whole loan at once; otherwise he will not allow him even the third required for the first instalment. The lender knows that the man who wishes to borrow so many marks now must apply for the same amount twice again, either from himself or some other; whether the lender opens his purse or not depends on the amount of the total loan which the contributor has to raise.

The remainder of the *entrepreneur* class, those who must submit to the painful experience of "mutilating" their working capital, will also no doubt profit by the division into instalments. The reason is the same as in the case of the privileged minority: if the piece of land, or other property, need not be disposed of immediately, there is a better chance of obtaining the normal price than if a buyer had to be found on the instant. This group, however, will still suffer more than the others.

State measures for strengthening credit are the only means by which the argument from mobilisation may be, if not overcome, at least somewhat weakened. Nothing will serve except to give the great majority of the *entrepreneur* class, who are compelled to

[1] J. Steinberg, in *Deutschlands Kriegslasten*, 1917, p. 26, writes: "A 10 per cent. property levy, payable in four yearly instalments, would no doubt present certain difficulties to landed property and capital locked up in businesses"; but these difficulties would be "insurmountable only in the rarest cases."

As shown above, the difficulties presented by even a 20 per cent. levy would not be "insurmountable," but for many they would be very great indeed.

[2] No special advantage would be secured by any but the minority of the *entrepreneur* class, the *beati debitores* who can effect a mortgage.

borrow, the certainty of obtaining loans, at a rate not greatly exceeding 5 per cent. The greater the percentage by which the rate of interest on private debts contracted under the pressure of the levy exceeds the rate of interest on the war debt extinguished by the levy, the greater is the burden imposed by the levy as compared with that imposed by national debt taxation; so much the more questionable becomes the "terrible end" from the standpoint of justice.

It has been suggested that the loan banks, which are intended to continue for some years after the conclusion of peace, might here render good service.[1] But their operation, like that of the instalments plan, would only benefit the minority, which is privileged in any case. The man who can meet the claims of the Treasury by realising securities[2] is enabled by the cheap process of pledging them with the loan banks to wait for a favourable turn of the market. But for the great majority—for those who find borrowing the most expedient method of meeting their obligation to the Treasury—there would be no great advantage. The middle section of the *entrepreneur* class possesses goods suitable for a Lombard transaction only in the rarest cases, and even the upper section is not always provided with them. The bulk of the class could be helped only by stronger measures.

It is an old suggestion that public bodies should guarantee second mortgages. If the Empire or the Federal States, or the Communes, decided upon this step—at least in regard to mortgages which could be proved to have been taken out for the sake of meeting the levy—many farmers, etc., would profit by obtaining second mortgages cheaply, for which they would otherwise have had to pay dear; others would obtain second mortgages who without a public guarantee would have been refused them, and would so escape the still more costly expedient of "mutilating their working capital."

There is another way in which the mobilisation of capital might be made easier for those to whom it presents the greatest difficulty. As things are, co-operative societies and banks cannot for the most part lend money except for short periods, because the deposits which they themselves receive are withdrawable at short notice. If, now, these institutions were to issue bonds, they would be in a much better position for granting to the *entrepreneur* class loans of the magnitude and for the duration which would be required.

1 G. Gothein, *loc. cit.*

2 The loan banks do not advance money on obligations.

As already said, money to lend is there in abundance. The national creditors must reinvest the proceeds of their sales of war scrip. As the prices of the securities already on the market, to which these paid-off creditors will naturally first turn, must rise sharply, new forms of investment will have excellent prospects.

No doubt these bonds could not be placed on the market on such favourable terms as mortgages; hence the loans granted from the money produced by them would bear a higher rate of interest than the loans obtained by the privileged few who can give first mortgages as security. But these loans from institutions would be granted at a lower rate of interest than would in general be charged by private lenders, and they would involve less loss of income than the sale of working capital. And though not all farmers, manufacturers and dealers would be helped—credit could only be allowed to those whose economic position, in the opinion of the institution, was not likely to become worse in the future[1]—still, a far larger proportion of the *entrepreneur* class would benefit than under present conditions, in which the institutions that grant personal credit operate on the quicksands of short-term deposits. Without the issue of bonds, the personal credit institutions could grant loans for the payment of the levy only out of their own property; but in the case of the institutions this is generally small, and in the case of the banks it is mostly tied up.

Unfortunately an extension of credit organisation in these two directions is hardly to be expected.. A great deal might be said both for and against. But it is superfluous to weigh the pros against the cons. For, even supposing public authorities ventured on the step of guaranteeing second mortgages, even if co-operative societies and banks successfully floated large issues of bonds; even if, in consequence, the bulk of the *entrepreneur* class, for whom the policy of debt liquidation means private borrowing on personal security, were to obtain loans at not much above 5 per cent.—so losing little more than the privileged minority and little more than they would have lost under national debt taxation—even then it would be necessary to enter a most decided protest against the "great seisachtheia."

[1] I may here once more emphasise the fact that, properly speaking, all *entrepreneurs* who borrow because of the levy are worthy of credit, for in consequence of the levy they are released from national debt taxation, and from the income so set free they can pay the interest on their loans from the institution and gradually clear off the principal; they can do this, however, only when their economic position does not become worse in the sequel (*cf.* above).

Mr. Falconer Larkworthy's Currency Proposals

The proposal of Mr. Larkworthy, Chairman of the Ionian Bank, in a pamphlet lately circulated and widely reprinted in the Press, is to abolish gold as the basis of all currency, both national and international, and to replace gold by securities. For international purposes, the securities upon which the currency of one country is to be based are to be deposited and held by other countries, with which it normally carries on trade, in proportion to the ascertained trade requirements of those other countries. For international trade the securities are to be deposited with the Government in exchange for the issue by them direct to the depositor of currency. *Inter alia*, Mr. Larkworthy proposes to sweep away the note issues of the Bank of England and all other banks, and to abolish the Bank Rate.

The proposals made by Mr. Larkworthy do not differ in essence from those set forth in a pamphlet signed by Mr. A. Kitson. Both Mr. Larkworthy's and Mr. Kitson's proposals amount in practice to the issue of a purely inconvertible paper currency. Mr. Larkworthy says on page 42 of his pamphlet: "It (*i.e.* his proposal) covers and contains the principle of inconvertibility without frightening people with the bold and naked assertion of inconvertibility in so many words." Mr. Kitson in par. 57 of his pamphlet quotes with approval the dictum of Mr. Shaw, a colleague on the Board of the Ionian Bank of Mr. Larkworthy, "that after only four years' experience of paper currency in England nobody wants to go back to gold and nobody dreams of demanding convertibility into gold."

The grounds upon which these two gentlemen base their conclusion that an inconvertible paper currency is not only desirable in itself, but would be an effective means of preventing fluctuation in exchange are as follows:—

(*a*) The pre-war German currency system was that a certain amount of gold was held as the basis of the note issue, and that when notes were issued beyond the authorised limit against the amount of gold held they then could be issued against a deposit of securities upon payment by the Reichsbank of a penal rate of interest, which penal rate of interest was, of course, passed on by the Reichsbank to its customers.

(*b*) The recent Federal Reserve Act of the United States likewise provides for a deposit of approved bills to secure the excess issue of notes subject again to the payment of a graduated penal interest.

(*c*) Currency notes have been issued to the extent of nearly 345 millions against £28,500,000 of gold and a deposit of securities for the balance.

(*d*) They assume that there has been no depreciation in currency consequent upon these note issues, and that no portion of the rise in prices and in wages is due to the volume of notes in circulation.

(*e*) Pursuing this assumption to its logical conclusion, they argue that if the exchangeable value of the circulation can be stabilised by a fractional holding of gold, it can be equally well stabilised :—

i. by holding no gold whatsoever,
ii. by holding bills or other securities, or
iii. by relying entirely upon the credit of the Government.

There is nothing particularly new in the proposals made by these gentlemen. At the time of the French Revolution the French Government provided for the needs of the State by the issue of notes secured against the landed properties of France, probably, at the time, the finest and most stable security in Europe. Everything went well as long as there was no over-issue, but the temptation, to which all governments are prone, of using the printing press to supply its immediate needs, was too great for the revolutionary ministers to resist; the consequence being that the assignats fell in value from a nominal value of £4 to about 3*d*.

The total substitution, as a basis for the issue of currency, of securities for gold would, as far as home trade only is concerned, cause constant fluctuations in the value of currency following variations in the value of the securities on which they are based. It should be pointed out that Mr. Larkworthy does not specify the classes of securities to be held as the cover upon which he would base the issue of notes. He speaks of first-class securities, and these may be either the primary debts of responsible governments or commercial bills based on genuine mercantile transactions. He relies for the stability of these securities upon the credit of the government of each country. History has shown that a temptation to over-issue, and thus obtain loans at a low rate of interest or at no interest at all, has proved too strong even for governments acting at the time upon the highest principles; they have almost invariably yielded and the country has been flooded with debased currency.

If a country enjoys the benefits of foreign trade, even to an

extremely limited extent, it would be impossible for it to maintain an inconvertible currency, or to maintain at an even level a currency resting upon a variable basis. For if the balance of trade between two countries leads to a constant excess of imports, the importing country can only pay for that continued excess by exporting bullion. It is just this marginal export of the gold necessary for bringing about the balance of international trade which fixes the value of gold in relation to other commodities and which also determines the rates of discount.

If an absolute equilibrium in international trade could be stabilised it might be possible to do without any gold basis, but as such a condition is not possible a basis of a kind as stable as possible must be provided. Gold appears from experience to form the only possible basis, but if it was decided not to use gold but securities as a basis, it is fairly obvious that when the balance of trade went against any particular country and it had to export the securities, which it held from other countries for the purpose of this international currency, that the value of the portion of the securities which it had to release would fall, and it is well known that the securities' market is so sensitive that the fall of any fraction of a bundle of securities causes a fall in the value of the whole bundle. Further, the fall in value of the highest class of securities of a contracting State would probably cause a fall in the values of all the securities of all the contracting States. This would mean that currency generally would be depreciated, prices would rise, trade would be generally hampered, and labour unrest would inevitably follow.

The real effects of the war upon international trade have been disguised by the artificial means adopted by the various countries to stabilise their exchanges. Once these artificial restrictions are withdrawn the real economic effects of the war upon the various countries will be made manifest. For example, America has now become the creditor nation of the world instead of being one of the debtor nations. England, in relation to America, is now a debtor country. During the war England, contrary to her normal practice, imported munitions and materials from the United States largely in excess of the amounts due as interest upon the debts of the United States to us. At first this excess was met by the exportation of gold. This method of payment was strictly economic and brought about no violent variation in the exchanges of the two countries, because the exchanges between the two countries were regulated by the movements of bullion. But, when the balance of trade continued over a long

period to be in favour of the United States, payment had to be made by the return to the United States of the bonds representing their primary indebtedness to the United Kingdom for the construction of their railways in the early development of their country. By this means we have practically got rid of the whole of our investments in the American markets. As the balance of trade grew more and more against London and in favour of New York, other expedients had to be tried; credits were created in New York to pay for materials and munitions sent by America to the continent on our behalf. These credits are an obligation in the future to repay to America the equivalent of the goods and services for which they were originally credited by the borrowing countries. Therefore, it seems that British commerce in the future must consist in exporting a great deal more largely than in the past and in importing less freely, and these exports, instead of being directed to the development of countries in which our financiers are interested, will be wholly devoted to the repayment of interest and capital upon foreign debt contracted during the war.

Owing to Government regulations and the prohibition of the use of gold by private people, there is for the present no free market in gold, but from the two available indications it appears that currency notes have depreciated relatively to gold. The first indication is, that though the Government have prevented the selling of gold coins above their par value, and the melting down of gold coins, they cannot prevent the dealing in gold between private parties when the gold takes the form of jewellery, and we know that simple gold jewellery, practically devoid of any ornament, and therefore of value only for its metallic content, is sold from £7 to £8 per oz. The other indication, which is derived from the exchanges with neutral countries, points to the fact that there has been a considerable depreciation in the value of the currency note. There has been no real gold exchange between England and the neutral States owing to the lack of transport facilities; consequently the rates of exchange have fluctuated in harmony with the only other standard available, namely, the price of commodities in general as measured by the price obtained for similar articles in other countries, and the exchanges have been, in spite of artificial attempts to stabilise them, against us in the Scandinavian countries, in Holland, and even in Spain.

It is significant that the "banking" school of thought (as opposed to the holders of the "currency" theory) advanced pre-

cisely the same arguments, when they appeared before the Bullion Committee, as are set out in the pamphlets of Mr. Larkworthy and Mr. Kitson. They then held, as many hold now, that the variation in the relation of currency notes and bullion is not caused by the depreciation of currency notes, but that gold, like other commodities, has risen in value relatively to currency notes.

It has been pointed out by many writers on economics that a theoretically perfect international medium of exchange could be established by means of a homogeneous international paper currency regulated by a scientifically constructed index number. This proposal is very attractive, and theoretically, at any rate, would form a perfect currency, but two difficulties in practical work are evident :—

1. The construction of a really perfect index number.
2. The measures to be taken to withdraw automatically the surplus currency of any country as the index number falls.

NEWMAN THOMPSON

Dublin.

NOTES ON LABOUR UNREST

IT is a mistake to attribute labour unrest to causes arising out of the war. The upheaval of industry and the uncertainty of the situation have brought matters to a head more rapidly, but the root causes were maturing before the outbreak of hostilities and would have made themselves manifest before now in any case.

The growing control of industry by huge combines rendered the craft basis of workmen's associations ineffective and led to the fusing of forces. The conducting of negotiations and agreements on a large scale often precluded local variations being taken into account. Delegate meetings gave the colour of local control, but the issues placed before the delegates were usually in general terms applicable to all districts and had little effect in counteracting the highly centralised power vested in national executives. It is true that on occasion a ballot vote of the members was taken, but here again the issues had to be so simplified that minor or local details were not given. The questions on ballot papers have often been put in a way that made the vote in favour of the official position a foregone conclusion.

The power in the hands of a few men too busy in dealing with national matters to give close attention to minor details has resulted in local variations being overlooked, or, it may be,

brushed aside as too trivial to deserve attention. Local dissatisfaction has resulted; matters which were minute when viewed from the headquarters in London or Manchester assumed greater proportions in the eyes of men on the spot, say, in Glasgow, Dundee, or Edinburgh. The consequence has been revolt and action taken without the consent of authority and sometimes even contrary to the commands of executive officers. It is only after the men are on the street that Head Office realises the gravity of the situation. An executive officer is sent to the seat of hostilities, negotiations are opened up, outstanding grievances are adjusted, and work is resumed. In most instances negotiations could just as easily have been opened up and grievances adjusted before the men were on the street; but with employers stiff-necked and the union executive inactive on the matter, it would seem that a crisis had to be created in the first instance. The lesson, however, has been taught that revolt pays, and that an unofficial strike will get grievances removed.

The men who have usually taken the outstanding part in such unauthorised strikes have been the shop-stewards, sometimes with, and frequently without, the support of the local management committee of the union. These stewards come directly in contact with the men and are generally the best informed on details; they wield a sway out of all proportion to their responsibilities, and often are antagonistic to official findings. An anomalous position has been reached by the formation of shop-stewards' and workers' committees whose function is to keep an eye on the shortcomings of the union officials.

Formerly, politics in trade unions were taboo, but ultimately political action and independent labour representation became part of the recognised creed. This brought with it the admission of a class hitherto rigidly excluded; till then the labour leader rose from the ranks, and, if not always a man of wide outlook, had at least made his personality felt in his union, trade union congresses, and other labour assemblies. In the political arena another type of labour leader quickly made his presence felt; with no previous connection with working-class associations, and mostly belonging to journalistic or professional circles, these "intellectuals" speedily elbowed their way to the front. Some were sincere, but to many it was only a new profession likely to become lucrative. Payment of Members of Parliament stimulated the growth of this type, which has not tended to strengthen and solidify the Labour movement. The British Trade Union Congress early banged its door in their faces by making it a con-

dition that delegates must either be working at the trade they represent or be permanent officials of their union.

Political action has had extremely meagre results, and it has been denounced as slow, cumbersome, and ineffective. A new school arose whose policy is direct industrial action, not, however, as formerly, for the purpose of regulating the relations between employers and workpeople, but for the overthrow of the present system of society. Up to a point its tenets can be easily followed; the workers, in the narrow sense of the manual workers, are to be organised, not according to craft, but by industry; that is to say, a joiner or engineer employed at a colliery would be linked up with the mine workers; if serving on a railway, with the railway servants. When the workers in an industry are sufficiently organised they shall take over and control the industry, not in the interest of the community as a whole, but in that of those engaged in the industry. This plan is sometimes varied by a proposal to declare, on a given day, a general strike of all industries, and thereby so paralyse all industry as to cause the overthrow of the present system of production. The proposals after this has been brought about are vague; and industrial unionists are wily enough not to go into details. Further they will not go than to suggest that an understanding could be arrived at between industries as to mutual aid and interchange. But they make it quite clear that the means of wealth production would not become the property of the State or be controlled by it; the reason assigned being that this would only be another form of Capitalism, none the less dangerous through being publicly owned.

Matters stood thus on August 4th, 1914, and have to be kept in view when studying the riddle of the present unrest. Unions have continued the policy of greater unification, and by absorption, affiliation, and alliance are creating huge and more huge combinations governed and controlled by a few men who practically are dictators. There is no suggestion of devolution of authority, nor of any local autonomy, and this may prove the feet of clay of these otherwise powerful structures. The industrial unionists have not been slow to take advantage of this manifest weakness.

The valley of the Clyde, as the principal industrial area in Scotland, has been the storm-centre therein, and has formed the nursery for promoting social, industrial, and political revolution. The energy and thoroughness displayed has to be admitted and admired, and there are few working-class organisations which have not been successfully permeated with emissaries holding

official positions. Opposed to organisation by trade, industrial unionists have become shop-stewards and branch officials. Hostile to the Labour Party as politically constituted, they have become its delegates and candidates. They have used professedly Socialist societies for the propagation of revolutionary anarchy. They have taken a leading part in the ventilation of grievances, and, although they are insignificant in numbers, they make up for it by assertiveness. Woe betide the hapless member who provoked their truculence by obstructing them in using the union for other than its avowed purpose, or by objecting to their tenets being put forward as those of the members. His honesty was questioned, and he had to submit to the vilest abuse both in the meeting-room and in the workshop. If he held an official position his influence was undermined by trickery and misrepresentation, and, if he did not retire in disgust, every effort was made to oust him.

Why do the members permit such obnoxious proceedings? In workmen's associations, as in others, the business, even in pre-war times, has been very much left to a few to carry on, the bulk of the members being content to pay their dues and turn up occasionally at a meeting at which they never have sufficient grip of details to winnow the chaff from the grain. This aspect has been intensified during the war period, when overtime has been the rule instead of the exception, and what is the result? Solemn obligations have been repudiated and official instructions defied. It has been no uncommon thing for a workman to be ordered to strike work and only to learn after he was on the street that the strike was unauthorised by his union and that no strike pay would be forthcoming. Should a member elect to stand by his union and its obligations he is jeered at and hooted, threatened, and even assaulted. Should those who disregard the unofficial instruction be numerous, the method of coercion is by "massed picket," which, stripped of its euphonic title, means the obstruction of those going to work by a menacing mob.

Had ordinary care been exercised by the authorities in the early days of the war the syndicalist rebel would not have secured the following he now undoubtedly has, but it would seem as if the official attitude was to irritate. Restrictions were placed on the citizens generally, many of them ill-timed and absurd, whilst the exploiter was handled in a gentle, apologetic way. Had a firm hand been put on the profiteer the wild, whirling words of sedition would only have received a tolerant smile and little serious heed would have been given to them. The first serious

blunder was made when the ringleaders were seized and deported without trial and without an opportunity being given of meeting the charges against them. This arbitrary action immediately swung public opinion on to the side of the deportees. Representative workmen, with no liking for the utterances of the men involved, immediately and properly took up the cudgels on their behalf. What guarantee was there—it was asked—that a similar fate would not befall anyone whose criticism was inconvenient to some jack-in-office? This revulsion of feeling gave the deported men a consequence which no action of their own could have secured for them.

The aim of the industrial unionist is not to regulate the workers' position in industry, but to paralyse the industrial system, and it is necessary to his propaganda that there should be grievances which touch the raw and cause the required ferment to be maintained. His methods are unscrupulous, crafty, and jesuitical. He posed as a pacifist on the issue of the war. He coached conscientious objectors on reasons likely to pass muster at recruiting tribunals for exemption from military duty. He raised the bogey of military conscription leading to industrial conscription. He wrecked a genuine movement for shortening the hours of labour by an absurd proposal for a thirty-hour week. He flouted political action, but put up one of the ringleaders at the General Election for a Glasgow seat, and got him officially labelled by the Labour Party. His general pose is to save trade unionists from their officials.

Much of the trouble has arisen through lack of confidence on the part of those in authority; properly and sympathetically handled, the people would have readily responded to restrictions and temporary limitation of freedom. The pittances to soldiers' wives and dependents were held up whilst uncalled-for and humiliating inquiries were made by tactless ladies with no knowledge of the requirements of a working-class home. Women and children had to stand for hours in queues in the hope of securing food, and that often without success. The Liquor Control Board allowed itself to be manipulated by cranks and faddists, and men working long hours under high pressure were put under galling and unnecessary restraints. Maligned and mistrusted, harassed and exploited, is it to be wondered at that the men gave ear to glib-tongued mischief-makers?

The situation is grave, inflammable material there is in plenty which it would only need a spark to ignite. The problem needs judicious handling by people sympathetically alive to the position.

Lecturing won't do; a close season of the subjects should be set for the platform, pulpit, and Press; and cranks must be firmly told that they cannot have the workman for a plaything, their panaceas must be turned down, and they must be told to mind their own business. The worker is not a spoilt child to be alternately coddled and spanked; he would readily respond to fair treatment, such as the removing of "thou shalt not" from him and applying it to the exploiters who prey upon him. Had the Government meted out stern justice to all such, it would have steadied his confidence in the even-handed administration of the law.

Unrest and discontent can only be allayed by the removal of the causes. The following are some of the palliatives: Highly centralised trade unions should arrange for a considerable measure of local autonomy; galling war restrictions should immediately be removed; homes fit for heroes should be something more than schemes on paper; food and clothing of a good quality should be procurable without speculators extorting ransom; the aged and infirm, the widow and the child should be tended in a more generous fashion; military pensions and allowances should be equitably adjusted; there should be an immediate shortening of the working day; the number of holidays should be at least doubled; the Wages (Temporary Regulation) Act, 1918, should be made a permanent measure; and the more outstanding flaws remedied in the Employers' Liability and Workmen's Compensation Acts.

It must not be forgotten that the war has brought about a great awakening, and men will not be content to be mere parts of the wealth-producing machine. Aspirations formerly latent, or at least only dimly realised, are now goals which must be reached. Given a political outlet, things can be rectified. To exercise restraint or raise obstacles is to play with fire and let loose the forces of revolutionary anarchy.

THOMAS WILSON,

Secretary, Edinburgh Bakers' and Confectioners' Union

OFFER OF PRIZES FOR ESSAYS ON CERTAIN ECONOMIC SUBJECTS, AND CONDITIONS OF COMPETITIONS.

THE attention of readers of the ECONOMIC JOURNAL is called to an offer by the proprietors of the *Statist* of an award of 1,000 guineas "for the best scheme for dealing with the Empire's debt created by the war"; to the prizes of 25,000 francs, 20,000 francs, and 10,000 francs, etc., offered by the Travers-Borgstroem

Foundation of the University of Berne for "A critical study of the organisation of credit in a given country and proposals for its nationalisation"; and to the prize offered by the Nobel Institute for "An account of the history of the Free Trade Movement in the nineteenth century and its bearings on the International Peace Movement." Particulars of these competitions are given below.

I.—The "Statist" Offer.

The proprietors of the *Statist* offer an award of 1,000 guineas for the best scheme for dealing with the Empire's debt created by the War.

The scheme submitted must be practical, non-Party, informative and original. It must be governed by economic conditions within the Empire, and a due regard to our political, economic, and commercial relations with other countries.

The basic principles underlying money and trade, and the duty of those who control wealth and encourage production must be observed.

The proprietors of the *Statist*, while they invite each competitor to state his case in his own way, nevertheless desire to point out that where data or figures are employed it will be necessary to quote their source and authenticity.

Utopian ideas or chimerical schemes are not invited.

It will be a commendation if the scheme submitted can be instituted and made a practical working plan without dislocating to any great extent vested interests, and has at the same time the object in view of creating higher efficiency, increased production and the betterment of the conditions of the people.

A plan that could be easily adapted to modern conditions and made operative in the shortest possible time would have much to commend it.

Authoritative and competent judges will be asked to determine the values of the schemes submitted. Their names will be published in due course.

Conditions—A.

The competition is open only to British and Colonial born subjects within the Empire.

Every scheme submitted must have in view the maintenance, the integrity, the strength and the defence of the Empire, that its adoption will be of the highest advantage to the Empire's interests and needs.

The present system of education in the Universities, Public, Elementary and State-controlled Schools should come under review.

Competitors should be as concise as possible, and they should conclude their remarks with a summary of their proposal sufficiently clear to form the basis of instructions to a Parliamentary draughtsman.

The award will be given to that essay which is best calculated to place the end in view within the range of practical attainment.

CONDITIONS—B.

Essays should be typewritten, on one side of the paper only.

No limit is fixed for contributions submitted, but 15,000 words should not be exceeded.

Each essay to bear a *nom de plume* or number, and be accompanied by a sealed envelope bearing outside the *nom de plume* or number, and inside the real name and address of the writer.

The decision of the judges to be final and to be made public as soon as they have made their award.

In the event of the judges considering two essays of equal merit, or in the event of disagreement between the judges, power is reserved to divide the prize.

The *Statist* reserves to itself the right to publish, in whole or in part, the prize essay or essays, and to make selections from unsuccessful essays.

Unsuccessful essays will be returned to competitors.

With the view of encouraging opinion from the most outlying of the Empire's Colonies and Dependencies, the closing date for receiving essays is extended until December 1, 1919.

Competitors requiring further information on the subject will be good enough to mark their letters "National Debt Scheme," addressed to The Editor, *The Statist*, 51, Cannon Street, London, E.C. 4.

II.—REGULATIONS[1] FOR THE INTERNATIONAL COMPETITION OF THE TRAVERS-BORGSTROEM FOUNDATION.

(*Prizes instituted at the University of Berne.*)

Article 1. The subject of the international competition, referred to in the Deed of Foundation, is as follows:

"THE NATIONALISATION OF CREDIT."

"A critical study of the organisation of credit in a given country, and proposals for its nationalisation."

[1] There are some curtailments from the full published circular.

The competitors are to examine the fiscal and economic advantages which may be expected from such nationalisation. Their task will comprise :

A. The elaboration of a general programme for the establishment in a given country of a State monopoly of banking and insurance on a purely commercial basis.

B. The drafting of a law for that particular country, relative to the creation and organisation of the above-mentioned monopoly, together with measures providing against any violation of such law.

C. Statistics regarding the present economic and financial conditions of the country in question, compared with those existing prior to the war, and a complete estimate of the necessary expenses for starting the new monopoly and operating the same.

Annexed to these regulations and forming part thereof is a personal statement by the Founder concerning the nature of the competition.

Art. 2. The competition is open to everyone, without distinction of nationality or profession.

Art. 4. The essays are to be presented to the Board of Management not later than March 31st, 1922. They may be written in English, French, German or Italian, must bear no signature, and be type-written on one side of the paper only. Each essay must be presented in duplicate and bear a motto, chosen by the author, and be accompanied by a sealed letter, marked with the same motto on the envelope, and containing the name and address of the author. These envelopes will be opened immediately after the jury has rendered its decision.

Any competitor may, however, add a declaration on his envelope to the effect that, in case of non-success, both copies of his essay, as well as the sealed envelope, shall be destroyed.

Art. 5. The final result of the competition will be published before the close of the year 1922.

Art. 6. The Board of Management may, in agreement with the Founder, postpone the dates for the presentation of the essays and the announcement of the results.

Art. 7. There can be no appeal against the decision of the jury.

Art. 8. The following prizes will be awarded :

A. *Three principal prizes* :

First prize : 25,000 frs.
Second prize : 20,000 frs.
Third prize : 10,000 frs.

for the three best essays on any country or countries whatsoever, which the jury may deem of sufficient importance and interest.

B. After the three principal prizes have been awarded, fifteen accessory prizes of three thousand francs each will be distributed for the best essays on any of the following ten countries: Belgium, Finland, France, Germany, Holland, Italy, Japan, Russia, Switzerland, United States of America, or on any country belonging to one of the following five groups:

Central and South America; Austria-Hungary and the Balkans; the British Empire; Spain and Portugal; the Scandinavian States.

A memoir on one or several States belonging to a Federation, on a Dominion or a Colony will likewise be admitted to the competition.

Winners of principal prizes will be excluded, as a matter of course, from the competition for the accessory prizes.

Should there be only one essay on any country or group of countries, the accessory prize intended for that country or group of countries shall be granted to its author, unless the jury esteem the work of insufficient merit.

Art. 9. The rights of authorship of the prize essays are reserved to their respective authors. In order to enable the latter to make use of their rights, one of the original copies will be returned to them shortly after the close of the competition. The second copy is to remain with the Founder, who shall have the right of using, gratuitously, any passage or passages whatsoever that he may wish to incorporate and publish in a collective study or in a special work of his own, either in the original text or in a translation of the same, making in every case proper mention of the author's name.

Of the remaining essays one copy will at once be returned to the author. The other copy will be returned only after the lapse of one year. Should the Founder wish to make use of such essay, after the manner stipulated for the prize essays, he must make a special arrangement with the author. . . .

Berne, November 24th, 1917.

The Board of Management:

PROF. DR. E. BLUMENSTEIN.

PROF. DR. E. RÖTHLISBERGER.

PROF. DR. J. H. GRAF.

PERSONAL STATEMENT OF FOUNDER.

In a little pamphlet called "The Triumph of Organisation and the Price of It," I have set forth in general, and necessarily

somewhat vague, terms my views on the desirability of nationalising borrowing and lending at interest. I have done this, not as a Socialist, but as a one-time Liberal, shaken in his faith during the war by the bankruptcy of so many principles hitherto accepted as immutable.

This pamphlet was and is intended to be an introduction to a more comprehensive work, entitled *The Nationalisation of Credit*, the materials for which I am at present engaged in collecting. In this work I hope to be able to come forward with facts and figures which will serve to convince the most critical of the very considerable revenues that may be made to flow into the State coffers by the institution of a monopoly such as the one here proposed, not only without putting any extra burden upon the shoulders of the unfortunate tax-payer, but with direct benefit to the nation in its economic development at home and abroad. At the same time it will be my aim to create, if possible, an international type of financial monopoly, capable of being adapted to the exigencies of every civilised country.

In these days of disordered communication and war censorship, I have found it a matter of some difficulty to procure the legal texts and complete statistics which I require from the various countries in question. It has therefore occurred to me that I might further my object by establishing an international competition on this same subject, "The Nationalisation of Credit," which I am proposing to develop later on in my intended work, but treated from a more special point of view, and limited to some particular country, chosen at the discretion of the competitors. Such of these latter as may have the advantage of residing in the country chosen will be in a comparatively favourable position to procure the necessary materials, and to comment upon the same from a local or national point of view. By putting together the essentials of these different national schemes, it will be my ambition to create the international type of which I have made mention above.

To insure impartiality, the competition has been placed under the patronage of the University of Berne, which Institution has consented to assume the control of it and to appoint an International Jury for the examination of the competing essays and the final adjudication of the prizes.

In an investigation of this kind, it is a primary condition that the works sent in shall give proof of serious and exhaustive inquiry into the subject in question, and embrace a scientific presentation and examination of it. The competitors are there-

fore expected to bring forward and analyse all reasonable arguments that can be urged against the proposed nationalisation of credit.

It follows, however, from the nature of the competition that the prizes can only be awarded to works in which the policy of nationalising credit is expressly endorsed. As a further fundamental condition it is stipulated that the organisation and development of the projected State monopoly shall be planned upon strictly business lines, and safeguarded from all undue political and bureaucratic influence, or philanthropic tendencies.

How to attain this end, is left to the discretion of the competitors. Except in the fundamentals just mentioned, full liberty is given them to develop the subject as they may judge best. It is suggested, however, as one of many alternatives, that the principle of mutuality might be introduced as a complement to that of nationalisation, and the control of the monopoly given to the *clientèle*, or to certain categories of the same. Indeed, on approaching the matter with an open mind, and with due regard to the signs of the times, the student might well be struck by the possibilities of this economic co-operation between the State and the individual, this "State-mutualism" as one might call it, and be led to see in it the corner stone on which to raise the new financial edifice. As regards banking more especially, it might appeal to his imagination to evolve some national system of mutual credit insurance, voluntary or compulsory—a network of associations, perhaps, created by Government initiative for the purpose of guaranteeing the State Bank from bad debts, and endowed, in return, with the privilege of participating, through their representatives, in the appointment and supervision of the bank management. He might even go a step further, and seek to establish an actual organic *rapport* between these Associations and the new monopoly, by providing that delegates of the former shall take part in the daily transactions of the State Bank as real, active members of the administration, both central and local, in the capacity of plenipotentiary assessors to the permanent directors and managers. Apart from their primary functions of guarantee and control, these mutual associations could in this way be made to act as good lubricating oil on the bureaucratic engine, and save it from its natural tendency gradually to lower the speed.

Passing to the internal order, the competitors will no doubt have overstepped the limits fixed by the founder. For, although, as the word "nationalisation" intimates, the monopoly in question is conceived as a purely State concern, placed under

the sole and inalienable ownership of the nation, to the exclusion of the old principle of privileged private capital in semi-official institutions, yet there is nothing to prevent its being based upon an intimate co-operation with its clients—debtors and creditors—or with mutualistically organised combinations of the same. As to the working of it, the machinery is there. The Post Office is already one vast national and international banking and insurance system, only needing development. The possible advantages of this suggestion should be balanced against its possible disadvantages.

Passing to the internal order, the competitors will no doubt of themselves perceive the justice and necessity of retaining the old staff, on terms no less favourable than at present. Future appointments would be made in accordance with the sound business principle that merit, and not seniority, shall be the sole consideration in matters of advancement. At the same time, the directors and high central officials should be assured of a generous share in the net profits of the whole, so as to be placed economically on a level with the great captains of industry and commerce. The managers of the various departments and branch offices should have their share in the results, each within his own respective sphere of influence. Nor should the rank and file be forgotten, but receive in addition to their fixed salary some suitable percentage, proportionate to the success of their efforts. The mutualistic principle would thus have been applied from one end of the ladder to the other, so that no good worker need have reason to regret the change.

By the incorporation of some such maxims in the charter of the monopoly, we should have introduced a new element into the official world, and, so to say, have Americanised the bureaucratic idea in at least one State institution.

The above suggestions are mere suggestions, to be accepted or rejected by the competitors. Other methods are equally permissible, so long as the two fundamentals insisted upon are kept in mind, viz., the nationalisation principle and the business principle. The founder is optimistic enough to believe that by the union of these two opposing principles of State ownership and business organisation it should not be found impossible to build up an efficient and popular financial monopoly, a happy combination of "Etatisme" and mutualism, of centralisation and devolution, of authority and democracy.

Clarens (Switzerland). ARTHUR TRAVERS-BORGSTROEM

III.—The Offer of the Nobel Institute.

The Norwegian Nobel Institute announces that it has decided to offer for international competition the following subject:—

An account of the history of the Free Trade Movement in the nineteenth century and its bearings on the International Peace Movement.

The essays can be written in English, French or German, or in one of the Scandinavian languages.

The author of the prize essay will be remunerated with Kr.5,000.00—five thousand Norwegian crowns. His work will then become the property of the Norwegian Nobel Institute.

The essays, bearing an epigraph and accompanied with a sealed envelope containing the name of the author, must be sent in to the Norwegian Nobel Institute, 19 Drammensvei, Christiania, before July 1st, 1922.

Recent Official Papers

The Covenant of the League of Nations, with a Commentary thereon. [Cmd. 151.] 2*d*.

Treaty of Peace between the Allied and Associated Powers and Germany. [Cmd. 153.] 4*s*. 6*d*.

Reply of the Allied and Associated Powers to the Observations of the German Delegation on the Conditions of Peace. [Cmd. 258.] 11*d*.

Declaration by the Governments of the United States of America, Great Britain, and France in regard to the Occupation of the Rhine Provinces. [Cmd. 240.] 1½*d*.

Anglo-French Treaty (Defence of France) Act, 1919. 1½*d*.

Treaty of Peace Act, 1919. 1½*d*.

Report of Food Conditions in Germany. [Cmd. 280.] 9*d*.

Economic Conditions prevailing in Germany. Further Reports by British Officers, April, 1919. [Cmd. 54.] 3*d*.

Bolshevism in Russia, or Revolutionary Socialism in Practice. Extracts from Reports to British Foreign Office on Bolshevism in Russia. Pp. 66. Department of Social Economics. 6*d*.

Royal Commission on the Income Tax. First instalment of the Minutes of Evidence with Appendices. [Cmd. 288–1.] 2*s*. 6*d*. Second instalment . . . [Cmd. 288–2.] 2*s*. 4*d*. These instal-

ments contain the evidence of twenty-seven witnesses and fifteen Appendices—many of them prepared by the Board of Inland Revenue.

Income Tax and Supertax. Estimate prepared by the Board of Inland Revenue, showing the approximate distribution of the estimated amounts of taxable income, allowances, etc., among taxpayers, classified according to the amounts of their total incomes, together with the estimated number of incomes in each class and the tax paid by each class. [Cmd. 224.] 1½*d.*

National Expenditure, Third Report from the Select Committee. [H.C. 168.] 2½*d.*

Food Production Department: Statement of Financial Results of Principal Trading Schemes carried out by the Food Production Department. [Cmd. 304.] 1½*d.*

Board of Trade (Coal Mines Department). Statement showing the Basis upon which the Increase in the Cost of Coal to the Consumer by 6s. per ton is Calculated. [Cmd. 252.] 1½*d.*

Report on Trusts by the Committee appointed by the Ministry of Reconstruction. [9236.] 6*d.*

Anti-Dumping Legislation. Summary Statement of the Legislative Provisions for the Prevention of Dumping in force in the Dominion of Canada, the Commonwealth of Australia, the Union of South Africa, and in the United States of America. [Cmd. 265.] 1½*d.*

Minutes of Evidence taken before the Indian Industrial Commission, 1916–1918. Vol. I. [Cmd. 234.] Vol. II. [Cmd. 235.] Vol. III. [Cmd. 236.]

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OBITUARY

ARCHDEACON CUNNINGHAM

THE death of Archdeacon Cunningham leaves England the poorer by the loss of a great economist and a great personality. He was possibly more appreciated as an economist abroad than at home, where until late years the dominant school had little sympathy with that historical treatment of economics Cunningham made it his life-work to promote. But no one could be insensible to the stimulus of his personality, which, with his untiring, ceaseless activity, rallied round him a large school of zealous workers, and has left an unmistakable impress on the economic teaching of his day.

We are naturally more concerned here with Cunningham's work as an economist than with his biography; but a few notes on his life-history may not be out of place, and may go some way to explain the results he achieved.

He was born in Edinburgh, December 29th, 1849, so that he was in his seventieth year when he died on June 10th. He was the third son of James Cunningham, W.S., and of Elizabeth Boyle, daughter of Alexander Dunlop, of Keppoch. He was educated at Edinburgh Academy, and afterwards at Edinburgh University, where he was Junior Greek Medallist in 1866, and studied philosophy under Professor Fraser. In 1868 he spent two months at Tübingen; he was at Mannheim with F. W. Maitland in 1874, and visited Marburg with his son in 1897. It was at Tübingen, his daughter tells me, that two American friends first interested him in the Book of Common Prayer, and so attracted him to the Church of England. He then entered at Caius College, Cambridge, afterwards becoming a scholar of Trinity College in 1869. In 1872 he took his degree as Senior (bracketed with F. W. Maitland) in the Moral Sciences Tripos. He also obtained three University prizes, the Hulsean, Maitland, and Kaye. Cambridge men of to-day will wonder why a man so distinguished did not obtain a Fellowship. But the circumstances were very exceptional. At that time Trinity would only offer one fellowship in Moral Sciences. There were three candidates for it—Professor James Ward, Archdeacon Cunningham, and Professor F. W. Maitland, all three destined to attain exceptional, almost world-wide, reputation. Professor Sidgwick, to whom it fell to make the selection, was a past-master in the art of critical estimation, but I think he never felt more difficulty in coming to a decision. His choice fell upon Professor Ward. It was no

disgrace to fail in such a contest, and with such a companion. In later years Trinity College made amends by electing Cunningham a Fellow for special merit; and he was also made an Honorary Fellow of Caius College, a distinction he greatly valued. Meanwhile he had not been idle. He was ordained by the Bishop of Ely in 1873; and from 1874–78 was one of the earliest lecturers on the new University Extension scheme founded by James Stuart. In 1880 he was Deputy to the Knightsbridge Professor of Moral Philosophy. The winter of 1881–82 he spent in India. But he was now settling down to his historical work. 1882 saw the first sketch of his *Growth of English Industry and Commerce;* a second edition of which, enlarged to two volumes, appeared in 1890–92; and from 1884–91 he was a University Lecturer in History. In 1891 he was appointed Tooke Professor of Economics at King's College, London, a post which he held till 1897. In 1899 he went to America, and was Lecturer on Economic History at Harvard, another association that he always cherished. He returned via San Francisco and Canada, staying at Montreal and Quebec, and revisited his relatives in Montreal with his daughter in October, 1914, on his way to deliver a course of lectures in Boston. In 1905 he went to South Africa as President of the Economic Section of the British Association. He was one of the leading spirits in the foundation of the British Academy, of which he, as well as Maitland and Professor Ward, were among the original members. He was also greatly concerned in the formation of the Royal Economic Society. Among the degrees he held may be mentioned the D.D. of Cambridge and the D.Sc. and Hon. LL.D. of Edinburgh.

No doubt Archdeacon Cunningham's activities as a Churchman will receive treatment by more competent hands. But they must be briefly noticed here. No one could fail to see that he was a man of the deepest religious convictions, who allowed no other interest, however keenly felt, to stand in the way of his clerical duties; indeed, those who only knew him in this relation might well have supposed that his whole life and strength were devoted to his church work. Ordained in 1873, he held in succession several minor cures; he was Chaplain of Trinity College 1880–91; Hulsean Lecturer 1885; Vicar of Great St. Mary's 1887–1908. Great St. Mary's never had a Vicar who was more generally esteemed; he was said to know the names of all the children in the parish; and it was characteristic of him that he sat for an hour every day in the vestry to be at the service of

any parishioner who wanted help or advice. The same success followed his work as Archdeacon of Ely, a post he held for the last twelve years of his life. His social instincts, his *bonhómie*, his wide ranging sympathies, and his interest in church fabrics and local customs specially qualified him for some of the incidental duties of this office, to which he devoted himself, I have sometimes thought, with excessive energy, making too great a draft on his failing strength.

But, whatever he did, he did with all his might, and without a thought for the results to himself. He was always at the service of any inquirer, undergraduate, colleague, or foreigner; the work he did in this way astonished me, and it involved him in heavy correspondence and inquiries of a very laborious kind. He was most active, too, in all questions of University organisation, more especially, but by no means exclusively, in those that concerned his favourite studies. The Cambridge Historical school owes its remarkable development very largely to the continuous assistance rendered by Cunningham over the whole period of his academic life; and he was almost equally devoted to the work of the Women's Colleges at Cambridge, and to the furtherance of the higher education of women in all its forms. Nor did he hesitate to take his full share in the cruder contests of national politics. He was an active member of the chief conservative organisations, and frequently addressed the local clubs, both of town and university. Latterly he had been much interested in the National Party; and shortly before his death he accepted the presidency of the Cambridge branch. His presidential address was a masterly statement of the general European situation and England's duty in regard to it. Those who heard it little thought how soon they were to lose him. But he died in harness, as he would have wished, in the service of his country; as his son had died, not long before, for whom, he said, he could have desired no more honourable fate, and held condolence to be out of place.

It is difficult in brief space to estimate the character and value of the work of such a man. The mere list of his writings on economical and social subjects, as given in his *Progress of Capitalism in England*, fills seven pages; this without including his theological and philosophical writings; and his published work only partially represents his multifarious and unceasing activities. But the one dominant impression left on my mind by the man and his writings is that in Cunningham we have primarily, and above all, a great National Economist, the modern representative of an old English tradition, unfortunately interrupted by the

atomism and premature cosmopolitanism of the *laissez-faire* age. His real ancestry is to be found in such men as the author of the *Libelle of English Polycye*, as Thomas Mun and William Petty, and, above all, in the spirit that inspired Shakespeare and the great Elizabethans. "The Common Weal of this Realm of England" (the short title of the famous sixteenth-century Discourse which he edited with Miss Lamond in 1891) exactly expresses the supreme purpose of his economic work. Unlike some modern intellectuals, who think patriotism vulgar, and affect to be the friends of every country but their own, Cunningham seemed always stirred by a sense of the greatness of Britain's past and of her possible future, and was not afraid to make its maintenance and increase his first aim.

He was not able to conceive world-society, in eighteenth-century fashion, as an atomistic congeries of competitive individuals. To him all the social organisations were vitally important, essential conditions of a healthy society; the family, the guild, the township, the great trading companies, the Church, the mother-country itself. Just as it was natural to men to concern themselves first with their family and local interests, so with Cunningham the Weal of this Realm of England ranked before that of any other; and he would have held that the surest road to the advancement of the world as a whole lay in the rational pursuit of the interests of those lesser organisations to which we find ourselves "in private duty bound," and in the order of that obligation. The family, the town, the guild, and the rest, to him they all played an indispensable part in the economic system; and, above all, the Nation and the Realm; that English Realm in which he would have welcomed a re-union of the English-speaking peoples.

Viewed in this way, economic history appears as one great concerted development, with something of the epic character; and one is always conscious of this in reading Cunningham's presentation of it. He says of the work done by his predecessors that too little progress had been made in surveying the growth of economic activities in their interconnection, and the development of the Body Economic as a whole. This was precisely what he set himself to do. But he did much more than this. It has been observed by "J. S. N.," in an admirable appreciation written for the Chronicle of the Edinburgh Academy, that the title Cunningham gave to his great history is misleading. It certainly is far from representing his full or even his primary purpose. Cunningham's real interest, to which his philosophical training

naturally inclined him, was rather in the history of economic opinion than in the material growth, either of industry or trade; in policy and institutions first, in their business results only in a secondary sense, as a test of the soundness of the policy. But, like all great economists, he was a strong realist, with an evident delight in the fact as such; and no detail was too minute for him if it threw any light on character and motive.

Another aspect of Cunningham's treatment of economic history is suggested by an observation he makes on Thorold Rogers. He says that Rogers is specially taken up with the economic interpretation of political history, and does not seem to have regarded the economic development of the country as itself deserving of systematic study. There is truth in this criticism, and it may be carried further. Rogers, in fact, used economic history as the Whigs had used Ricardian theory, as a handy weapon with which to belabour his political opponents; for Rogers was political in both senses of that word. Cunningham is everywhere sympathetic and interpretative; he enters so fully into the spirit and aims of the systems and policies he describes that his own views are often not easy to seize; he is like a great dramatist, who cannot be identified with any one of the characters he creates. Negatively, he is the very antipodes of such a writer as McCulloch, who, with all his keen interest in history, judged the value of seventeenth-century writings by their approximation to the views of the men of 1846. Hence Mercantilism, merely burlesqued in the pages of the orthodox text-books, really lives in Cunningham's handling of it; and we are able to see that it represented elemental truths, and to feel no surprise at modern revivals of the policy. His treatment of mediæval economy is even more admirable and persuasive. The average English economic student of the last generation got his first intelligent idea of this great organic age, as Comte called it, so full of instruction for our own, from the works of Cunningham and Sir William Ashley. Cunningham's interpretation convinces because it is based on a very real moral sympathy with the spirit and ideals of the Middle Age; a sympathy based on understanding, the result of laborious and most scholarly study of all available sources. To Cunningham, as to all genuine historians, appreciation and explanation, not criticism, is the main function of history; one may say simply appreciation, for without appreciation explanation is impossible.

When we turn to consider how far Cunningham's achievement realised his intentions we must remember that he had the courage

to go to press with his first rough sketch, almost before he had been able to look round his subject. The little crown octavo of 1882 lent itself to facile criticism from those who were experts in any one of the wide range of topics somewhat casually selected for treatment in it. But Cunningham was justified in the result. From the first his book became the rallying-point for a school; and as the incessant industry of the author explored fresh fields each successive edition was greatly improved; and in its latest form the work is an established classic. The improvement was specially marked in the edition of 1903 The history then became very fully documented, and more closely dated and defined. It now represents, quite apart from the author's own conclusions, an invaluable quarry of material, likely in the hands of specialist inquirers to yield further results of great importance, but already well organised to give that connected and comprehensive view of English economic development which was Cunningham's original purpose. What is everywhere apparent, over and above the remarkable breadth and variety of interest shown, and the wide range of time covered, is the author's delight in going direct to original sources. This, in earlier editions, and perhaps to some extent even in the latest, led him to avoid generalising his material; and so makes his exposition appear in places desultory and unsystematic. But, if this is a fault, it is a fault on the right side. It gives a sense of reality, and quickens, as I think nothing else does, the interest of the student. To furnish this wealth of material the rich stores of the British Museum and the State Papers and a mass of local records have been patiently searched. Some of the enormous labour this must have involved might have been saved and further sources discovered, if the classified collection in the Goldsmiths' Library, arranged expressly to facilitate historical work, had been consulted. But it was probably Cunningham's extreme loyalty and delicate sense of honour in regard to the work of others in his own line of study that prevented his use of this material, which he knew that I had at one time hoped to find leisure to work at myself. It was characteristic of the man; it rather increased his labour than injured his work. That work will endure.

I have already hinted that Cunningham, like most path-breakers, met with a certain hostility from a section of English economists. Their criticisms related rather to his views as a general economist than to his work as historian; but it is difficult to distinguish, for Cunningham's attitude was the same in all his activities. Perhaps what his Cambridge colleagues could least

understand, and therefore most resented, was his general depreciation of economic theory, or, as the phrase now goes, of analysis. I remember that in early days I was in constant though friendly controversy with him on this point, and found his position unintelligible. It seemed to me that there was no necessary opposition between the theoretical and the realistic habit, as the example of Jevons so brilliantly showed. But on further consideration I have not only learnt to understand Cunningham's mistrust of economic theory, but find myself more and more inclined to move in his direction. He did not explain his views very fully, contenting himself with the assertion that political economy could only be a descriptive, not a deductive, science. I believe that he was a Comtist without knowing it. He sometimes criticises Comte; but he did on the whole adopt Comte's position that separate abstract studies of human action were dangerous and inadequate; that man must for practical purposes be treated as a complex whole; that the only adequate practical science could be no narrower than the limits of sociology in general, the old Greek Politics. This explains his hostility, which many thought excessive, to economic theory. He regarded it as an attempt to found an independent science of self-interest, measured by market values; and there is no doubt it is often so regarded. Cunningham mistrusted attempts to arrive at results of practical value by abstract deductions from meagre, and often ill-defined, or even undefined, assumptions. With Carlyle, he did not believe any society ever had existed, or could or should exist, based on the "Cash Nexus" alone. The most important practical questions depend at every point on the complicated reactions of human nature and human motive. The live issues of to-day turn ultimately on points of character and personality. They require treatment, not on the lines of mathematical physics, so much as of ethics and psychology.

All this, however, may be admitted, and it may yet be held that economic theory is a valuable discipline, and useful within its limitations, when these are rigorously observed. Cunningham could hardly deny this, but he doubted the observance of the limitations. It had so often been found in practice that those who were specially addicted to theory, or what passes for theory in economic text-books, were liable when they turned to practice to be doctrinaires, and to show lack of the necessary width of outlook and sound judgment. It is these latter qualities which are most essential for the practical economist; and there is no finer school for them than the study of history, scientifically pur-

sued. Cunningham often protests against the view that the study of historical conditions is an idle pedantry, and insists that it is essential for the understanding of present-day conditions. What a flood of light a serious study of mediæval economy would throw on the causes of modern industrial unrest; what a world of waste, violence and wreckage might have been spared us had those in authority profited by the study of more natural and human, if more primitive, social conditions. Considerations such as these may help to explain, if they do not altogether justify, Cunningham's attitude towards the theoretical school. At the time he began his campaign historical study was unduly depreciated at Cambridge; and while there has been a marked change in English opinion since those days, it must not be forgotten that the change was due in no small degree to Cunningham's influence.

A minor point, but one which exposed Cunningham to even stronger antipathies, was his attitude on Tariff Policy. I have always thought that he did himself and his real aims something less than justice by his uncompromising support of the Tariff Reform party. But this, again, was characteristic of the man. Intensely loyal as he always was, he felt it a duty to put his party, as he put his country and his church, before any personal considerations. He thought the Tariff Reformers were on the right side in opposing Cobdenism, Internationalism, and the unrestrained pursuit of cheapness and immediate profit; he therefore fought under their flag, and, having once ranged himself, he did not try to insist upon his own formulation of the precise issue. But I have come across nothing in his works, nor in converse with him, which would justify Protection in the sense in which many Tariff Reformers use the term. His position was essentially that of the National Economist, whose supreme aim is not temporary cheapness, but the permanent increase of the productive power and general welfare of his country; of his country first, then of Britons overseas, and next of his country's friends. One thinks of him as in sympathy with Colbert and List rather than with McKinley, or some of those modern Tariff Reformers who so ingenuously ask to be protected against, and in proportion to, their own inefficiency.

But there is no need to defend Cunningham, who was not in the least disturbed by these differences with a section of his colleagues. He had the courage of his opinions, and was well able to maintain them against all comers; indeed, I am not sure that he did not find a certain stimulus in controversy. He has been considered a hard fighter; most men of deep convictions are;

he may have been occasionally severe where he thought he saw dishonesty; but he was able to take as well as to give a blow, he was always fair and courteous; it was a pleasure to cross swords with such an opponent. One's last recollections of him are of a man who was the soul of honour and loyalty, gifted with a singular power of inspiration, absolutely unselfish, overflowing with kindly interest to all sorts and conditions of men.

He was happy in his end; he had lived to see the fruit of his labours. Economic history in England before he began to work at it was generally neglected, especially at the Universities. It was represented by some creditable histories of special subjects such as we find in the works of Sinclair, Eden, Ruding, Tooke and Nicholls, all the product of an earlier generation; or by bare Annals of Trade, of which the work of Anderson and Macpherson is the outstanding example; or, again, by a medley of antiquities mostly collected by local antiquaries. Before Cunningham died this mass of material, with immense additions, had been welded into a coherent, continuous national history. But he was not content merely to furnish the means for study; he did more than anyone to give the study its due academic weight. Blackstone said of Adam Smith that he made economics speak the language of the scholar and the gentleman. That is to say, he gave economics an established place in academic studies and general culture, ranking with the older studies of ethics and jurisprudence. It was precisely the effect of Smith's work, and, if we take a long view, was probably his greatest service to the science. Archdeacon Cunningham has rendered a similar service to economic history in England. His success was partly due, as in the case of Adam Smith, to his wide range of accomplishment in the moral and legal sciences; but it owed almost as much to his vigorous personality and untiring energy. He was unsparing in the drafts he made on his strength, and it can hardly be doubted that his generous devotion to public work hastened his end. But if lives are measured by content, Cunningham's life was a long one. It was long enough to see his great aims achieved. He had contributed to a remarkable revival and co-ordination of inquiry in Economic History, he had obtained for the study some sort of academic recognition, and he had given a distinctly historical impress to the tone and teaching of the English economic school.

H. S. FOXWELL

At the request of the Editors, Mrs. Lilian Knowles has contributed the following personal appreciation of Dr. Cunningham :—

Dr. Cunningham was so vivid a personality that it is almost

impossible to realise that we shall see him no more. He was so intensely, vitally alive, so interested in everything that was going on, so keen a Churchman, so great a scholar, so inspiring a teacher, so good a friend. If one had to single out two of the leading features of his many-sided character, one would accentuate, I think, his immense capacity for, and output of, work of a high quality, and his intense interest in human beings. I had some opportunity of seeing his methods of work, since I helped him to gather the material for his *Western Civilisation* (*Modern Times*) and the later editions of his *Growth of English Industry and Commerce*. After working for weeks I would get together, in the British Museum or Record Office, a pile of documents or books which I thought would occupy him for days. He would come down from Cambridge, tear the heart out of the mass in a day, or perhaps even an afternoon, and be ready for more. He scarcely seemed to glance at the books, but he had always got the gist of the matter. He had an unerring instinct for the point. When I began teaching at the School of Economics he said to me: "Get an idea, right or wrong; it is something for the students to hang on to. The facts will sort themselves." His historical sympathy was so great that he saw instinctively what the people of other days were aiming at, and the facts in his hands fell into their place. On the other hand, he was always prepared to alter his views or his ideas if the facts would not support him. He entirely altered his opinions as to the effect of the Navigation Acts, for instance, in the later edition of the *Growth*. In *The Progress of Capitalism in England* (1916) he collected, on pp. 136–142, a list of all his books and articles on economic subjects, omitting his numerous contributions to Divinity. The economic works total up to 101, not including *The Progress* itself. In that list *The Growth of English Industry and Commerce* (three vols. of 1,763 pages) counts as one book only. I know of two works published since 1916, and two more in preparation.

He used to say to me when we were labouring at the *Growth*: "If I can only get this finished, my subject will never die. Seeley's subject tended to lapse with his death, because he never left a text-book. This book will be altered and re-written, but I have sketched out the scheme and laid the foundations. Economic history teaching will always go on." Before he died he saw his subject, which in my time at Cambridge (1890–4) was only one paper in the History Tripos, included in the Economics Tripos and taught in every University of any standing in the United Kingdom. It spread from there to workers' educational classes, and is now widely taught in secondary schools. This could not

have been done had not Dr. Cunningham sketched the periods and main features of English economic evolution, taking into account, as no other economic historian has done in any country, the agricultural, commercial, industrial, and financial sides of life and weaving them in with the political happenings of the time. He was always very keen to show the interaction between political and economic life. The book was written for teachers, and it is marvellous that over 2,000 years of English life should have been got into three volumes. He used to say to me: "If I put in all you want me to put in, it will be twelve volumes and not three, and then nobody will be able to buy it." He gave the whole of the profits of the book—£800—to Girton to publish the books of authors who otherwise might not get a chance. The result is "The Girton Series."

He was keenly interested in the Tariff controversy. He held that as the manor merged into the town and its surrounding country, and that again into the nation, so we were, in the 'nineties, at a parting of the ways. We had to choose whether we would merge into the bigger unit of the Empire in accordance with historical evolution or whether we would remain a small outlying island on the edge of Europe. He considered that we must go over to something bigger or we should share the fate of Holland in the eighteenth century. He believed that a preference system with a consequent alteration in our free trade system was the way to effect this. Hence he was a stalwart of the Tariff Reform band.

It is only when one knows how rarely he got an uninterrupted morning or afternoon for work that one realises how marvellous was the task accomplished. He believed that it was his duty to work, and his views are set out in his book called *The Gospel of Work.*

The interruptions to his economic activities arose from the fact that he was an ecclesiastic as well as an economist. I once said to him: "Why don't you give up Great St. Mary's? You only get £60 stipend and you keep two curates. It is a dead loss to you, and you never get a Sunday's rest." He told me that he was a priest first and that he considered he could never cease to be an active priest. When a smallpox epidemic broke out in Cambridge in the summer of 1902 or 1903 the proofs of the *Growth* ceased to come to me. When Dr. Cunningham turned up at the Museum I asked whether he had been in the smallpox hospital. He said that he had been there every day. He explained to me that the convalescents were so dull and that he

brought them papers and played games with them. I suggested that he should send one of his curates. Curates who cannot write economic histories can play backgammon with smallpox patients. Dr. Cunningham explained to me that if there was anything wrong in the hospital, he was a big enough personage to "kick up a row," and that a curate would not be in the same position. The real reason was that he would not risk his curates. He spent weeks afterwards trying to get those smallpox patients posts, as people were afraid to engage them at first. It is impossible to exaggerate the kindliness of Dr. Cunningham's nature. No one ever went to him for help who did not get it, and he often realised when people wanted consolation or help without being asked, and went out of his way to give it. But he did more than that, he set out to give pleasure. Many of the Girton history graduates owe him some of the happiest times of their lives. It did not matter to him whether you were rich or poor, intellectually good or weak, you were a human being, and he tried to get to know you outside the lecture-room, and took an interest in your career.

It is difficult for one who, like myself, owes him everything, intellectually speaking, justly to appraise him. To me he has always been the greatest man I ever met, and it has been my good fortune to meet many distinguished men. His love of human beings, his all-embracing charity, his sense of humour, his humility, and his mighty inspiring intellect will ever be the most precious memories of our association together.

Sir Edward Holden

The loss which the City has suffered by the death of Sir Edward Holden seems to be more fully realised as time goes on. So combative and individual a figure could not fail to rouse jealousies and animosities during his life; but the value of his personality to London as a whole is now being referred to more appreciatively, and realised more clearly, by those among whom he worked. Since 1891, when the amalgamation of the Birmingham and Midland Bank with the Central Bank of London was effected, the English joint-stock banks have steadily increased their resources and their sphere of operations, and it is fair to say that Holden was throughout a pioneer. It was an era of amalgamations and absorptions; in 1898 the union with the City Bank produced the London City and Midland, with Holden as its leading spirit. The next twenty years saw many absorptions

of smaller banks, great extension of banking activity, and the selection of Holden as Chairman as well as Managing Director of the bank; and last year the amalgamation with the London Joint Stock Bank gave the combination the largest deposits of any private bank in the world.

The rise of a man unsupplied with private wealth or influence to such a position is in itself remarkable; yet, if that was all, Holden's name would not necessarily be long remembered. But he was more than a successful man; he had many of the elements of greatness. He could see the wood and the trees together, and in their right proportions. He was not afraid of big transactions, yet never, to the end of his days, did he fail to be informed of details, often trifling in appearance, in regard to his customers and their interests.

Perhaps the quality of his mind can best be judged by his attitude towards foreign business. In the 'nineties managers of English banks knew very little of conditions abroad, and did practically no business involving foreign currencies and exchange. Holden was at first no exception to this rule, nor was he intellectually capable of seeing at a glance what could be done in that field. But he saw that something could be done, and he set to work to find out what others were doing, and to improve on it. Characteristically, he began, not with speculation, but with meeting the financial needs of English shippers who wanted money collected, guarantees given, and so forth, in foreign ports. From this nucleus he built up a large and profitable business all over the world, and showed at a later stage his independence of mind by refraining from opening up subsidiary companies or branches abroad, as some of his competitors did. He took the machinery that was in existence, and developed it in the way he wished. He never began an enterprise without first thoroughly understanding himself what he was about to do; he was eager for the utmost possible profit for the bank, but never afraid to give away what were really small things in order to gain big things.

His zeal for the bank contributed largely to the present concentration of financial power in the hands of five great institutions; but the very qualities which made his success possible made it impossible for a Money Trust to exist while he lived. His speeches, which were widely circulated each year, were the result of elaborate preparation aided by an excellent intelligence staff of which he made good use; for he always knew how to appreciate talent, and, despite the concentration of power in his hands,

he was no egotist, and prepared the way for his successors with skill and discretion. He lived for the bank, and for its customers as much as its shareholders; and he was never done with learning.

Few who knew him will quickly forget the force and yet the essential kindliness of the man. His combativeness was on the surface. "Deposits! what are *their* deposits?" he once said of certain other banks which opposed some change on the ground that they might lose them. Yet one can see well enough now how much London as a whole has gained in prestige and influence abroad, particularly in America, from one who feared neither tradition nor Governments nor big names, but applied the whole of his great talent and fiery energy to the development of an institution which he believed could be of service to the whole community.

D. S. R.

[A full biography of Sir Edward Holden will be found in the *Bankers' Magazine* for September, 1919.]

CURRENT TOPICS

THE following have been elected to membership of the Royal Economic Society:—

Abbott, W.
Aiyengar, R. R.
Barr, J.
Beamish, A. J.
Chase, H. P.
Chaturvedi, P. S.
Cheng, Sih-Gung.
Chuckerbutty, N. K.
Costigan, P. A.
Deole, C. S.
Duncan, G. W.
Elliott, W.
Evans, A. H.
Evans, R. (life).
Evans, W. A. (life).
Fontheim, Max.
Francis, H. J.
Geard, D. A. A.
Giblin, Major L. F., D.S.O. (life).
Gillespie, W. D.
Glenday, R.
Glover, G. R.
Glyn-Coleman, P. S.
Gorman, W.
Hansson, Dr. Sigurd.
Hart, M. J.
Hecht, J. S.
Hopps, J. A.
Javasche Bank, Amsterdam.
Jenne, Henri.
Kitchingham, F. A.
Kyle, Miss F. C.
Kurita, Yohtaro.
Law, A.
Lloyd, E. A.
Macfarlane, S. G.
McVitty, A. E.
Mann, J. E. F.
Minns, O. A.
Mitchell, B.
Moulsdale, T. K. (life).
Mukai, Tadaharu.

Newling, R. S.	Scott, D. B.
Patro, Rai Saheb A. P.	Sen-Gupta, D. N.
Peart, J. A.	Solomon, E. H.
Pontifex, B. (life).	Stanton, W. F.
Popplewell, F.	Stephenson, F. W.
Presbury, S.	Till, J. R.
Purdom, C. B.	Tsang, K. S.
Rau, B. R.	Vincentelli, A. F.
Rockey, K. H.	Wootton, Mrs. J. W.
Sa, Maung Po.	Zorn, J. C. L.

The following have been admitted to library membership:—Bibliothèque et Musée de la Guerre, Paris; Federation of British Industries, London; The Institute of Bankers, London; Johannesburg Public Library; Ohio State Library; Toledo Public Library, Ohio.

RECENT PERIODICALS AND NEW BOOKS

Journal of the Royal Statistical Society.

MAY, 1919. *A Survey of the Development of the Servian (Southern Slav) Nation.* PROF. G. DIOURITCH. *The Measurement of Changes in the Cost of Living.* A. L. BOWLEY. General principles are adapted to the case before us—great changes in the proportionate quantities of commodities consumed at two epochs (1914 and 1918). *Crop Cycles in the United Kingdom and in the United States.* H. L MOORE.

The Quarterly Review.

JULY, 1919. *Women in Industry.* SIR LYNDEN MACASSEY. After describing the industrial position of women before and during the war, the well-informed writer prescribes for the future equality of opportunity with due regard to sex peculiarities and precautions against "undercutting." *Inland Transport.* JAMES CARLISLE. With reference to several recent official reports, the existing means of transport are surveyed, and to effect certain improvements there the creation of a strong Board of Control is recommended. *Railway Nationalisation.* W. M. ACWORTH. Having regard to existing conditions—*e.g.*, the cost of the railways to the Exchequer for 1919–20, at least £60,000,000—Mr. Acworth holds that nationalisation, at least as an *interim* policy, is the best course now open to us. He offers suggestions for avoiding the disadvantages of State management. *German Business Methods in the United States.* C. H. BUTT. *Home Rule and Labour in Catalonia.* JOSÉ DE ARMAS. *Reconstruction in the United States.* WALDO G. LELAND.

The Edinburgh Review.

JULY, 1919. *The Future of British Agriculture . . . Trade Combinations.* C. E. FAYLE. Referring to the Report of the Committee on Trusts. [Cd. 9236.] 1919. *The Ethical Side of Socialism.* The Editor. Envy, hatred, and malice inspire the war against existing institutions.

The Contemporary Review.

JULY, 1919. *Steel and the Coal Trade.* SIR HUGH BELL.
AUGUST. *The Report of the Coal Industry Commission.* R. H. TAWNEY. If the workers' demand for a radical reconstruction of the coal industry is rejected, the much-required increase in output will be prevented. *French Industry and Motive Power.* S. HUDDLESTON.

Better Business (Dublin).

The Production of Preserved Milk. The translation of a lecture by a Danish instructor. *Co-operation in the New World.* Mortgage credit is the subject of this *ninth* article. *An Impression of the I.A.O.S. General Meeting.* W. B. W. An outsider who attended the meeting of last March was impressed by the juxtaposition of the Reverend the Grand Chaplain of the Order of Orangemen and the Reverend the Vice-President, *Sinn Féin.* The "sense of the house" seemed to be distrust of Government.

The Quarterly Journal of Economics (Cambridge, Mass.).

MAY, 1919. *The Relations of Recent Psychological Developments to Economic Theory.* Z. CLARK DICKINSON. Having premised that economics is only in part an objective science, the writer elaborately discusses the hedonistic foundation of economic action, the summation of utility, and other philosophical topics; concluding that psychology would be especially useful for *dynamic* purposes if it assisted us to prophesy what would be the result of supposed innovations. *Latin-American Foreign Exchange and International Balances during the War.* J. H. WILLIAMS. An instructive study of the foreign exchanges in Argentina, Brazil, Chile, and Uruguay. *The Positive Contributions of Scientific Management.* H. H. FARQUHAR. Industrial peace, increased wages, improved working conditions, larger individual opportunity, such are some of the achievements claimed for the science of management. *Indebtedness of the Principal Belligerents.* L. R. GOTTLIEB. The total debt contracted during the war by four Central Powers and five Allied Powers (excluding Belgium, Japan, and Balkan belligerents) amounts almost to 210,000 million dollars (£42,500,000,000), of which more than 70 per cent. is borne by the Allied, and less than 30 per cent. by the Central, Powers. *The Iron-Ore Problem of Lorraine.* ABRAHAM BERGLUND. The old interchange of French ore for German coke will probably be resumed.

In the notes Prof. Brown disputes an argument in favour of Protection used by Prof. Carver. There is a rejoinder by Prof. Carver, and a "re-rejoinder" by his critic.

The American Economic Review (Cambridge, Mass.).

JUNE, 1919. *The Revenue Act of* 1918. ROY and GLADYS BLAKEY. *The Proposal to Stabilise the Unit of Money.* G. H. KNIBBS. A criticism of Prof. Irving Fisher's scheme. *A Rejoinder.* IRVING FISHER. *An American Standard of Value.* D. J. TINNES. Referring to the "market gage dollar" proposed in the AMERICAN ECONOMIC REVIEW, September, 1918, by the writer. *Agriculture in Early Latium.* TENNEY FRANK. In the sixth century B.C. Latium was cultivated with an intensity seldom equalled elsewhere. The productive qualities of the soil were thereby exhausted; the deforestation of the Volscian mountains hastened the ruin, and the small farmers yielded ground to the

lord, who commanded capital for ranching on a large scale. *The Purposes Achieved by Railroad Reorganisation.* A. G. Dewing.

Journal of Political Economy (Chicago).

July, 1919. *The Webb Law.* William Notz. Referring to the Act of 1918 involving compulsory registration and some control of trade combinations. *Plant Administration of Labour.* Paul H. Douglas. On the functions of management. *The Place of Agriculture in Modern Industrial Society.* II. E. G. Nourse. *Commercial Banking and Capital Formation.* Myson W. Watkins. A criticism of Mr. Moulton's writing on this subject; with a rejoinder by Mr. Moulton; a rebutter by the critic and a surrebutter by the criticised author.

Political Science Quarterly (New York).

March, 1919. *Price Fixing in the United States during the War.* I. L. H. Haney.

June. *Price Fixing in the United States during the War.* II. L. H. Haney.

Annals of the American Academy (Philadelphia).

May, 1919. This number deals with *Economic Internationalism*, including a short paper by Prof. T. N. Carver on international phases of the land question; a forecast of *American Tariff Policies*, by W. S. Culbertson, member of the United States Tariff Commission; and several papers bearing on the relation of economics to peace.

July. This number is devoted to *International Reconstruction.* Among the subjects discussed are The Future of Turkey, The Present and Future of Russia, The Freedom of the Seas, etc.

Journal des Économistes (Paris).

May, 1919. *La propriété littéraire et artistique pendant la guerre.* Fernand-Jacq. *Le Bolchevisme en Russie.* A. Raffalovich. A *résumé* of the White Book on Bolshevism issued by the British Government. *Les Grands Compagnies de Chemins de Fer en* 1918. Q. de Nouvron. *La circulation fiduciaire et l'or aux Etats-Unis durant la guerre.* A. Raffalovich.

June. *La politique financière de M. Klotz.* Yves-Guyot. An unsympathetic criticism. *Le Budget Britannique pour* 1919–20. W. M J. Williams. *La question monétaire en Turquie.* A. Raffalovich. Inflation is stimulated by the Turk's prepossession in favour of hard money. The paper price of bread has risen by 1,727 o/o, that of sugar by 7,900 o/o, that of coffee by 6,687 o/o, and so on. *La situation bancaire en Roumanie.* P. Caubone.

July. *Le traité de Versailles.* Yves Guyot. *Les Menées Socialistes et les Nationalisations.* Y. G. *La question de Constantinople.* M. Ketsedgy. *Le Mouvement des prix avant et depuis la guerre.* G. Delamotte.

Revue d'Economie Politique (Paris).

MARCH–APRIL, 1919. *Les Causes de la Hausse des Prix.* BARON CHARLES MOURRE. A study on the effects of quantity of money and rapidity of circulation. *Le mouvement de la population pendant la guerre dans la France non envahie.* J. BOURDON. Interesting vital statistics. *La Politique Française en matière d'Importation pendant la guerre.* A. AFTALION. *Les Relations Commerciales Germano-Russes et l'Avenir.* V. GLASOFF. *Les idèes économiques et sociales de Giuseppe Mazzini.* G. ANAS. *Le papier-monnaie en Turquie pendant la guerre.* J. VERGEOT. *Le Marché Cotonnier du Havre pendant la guerre.* E. AMPHOUX. *Les Causes de la Hausse de Prix* (Suite et fin). LE BARON CHARLES MOURRE.

Le Musée Social (Paris).

Les Moyens d'intensifier la Production Agricole. E. TISSERAND. *Le travail des femmes et le demi-temps.* Madame A. DE SAINTE-CROIX. The "part-time" system which allows women to work for half-days has good results.

De Economist (La Hague).

APRIL, 1919. *Het Vraagstuk van de delging der oorlogs of crisis-schulden.* G. M. BOISSEVAIN. The question of the discharge of war debt is resumed and concluded.

AUGUST. *De Vrede.* C. A. VERRIJN STUART. The treaty of Versailles, politically and economically short-sighted, cannot be durable. *Nieuwe verschuiving van mannelijke en vrouwelijke arbeidskrachten.* ANNA POLAK. The entrance of women into many new branches of industry in different countries has brought nearer the triumph of the principle "Equal pay for equal work."

Archiv für Sozialwissenschaft und Sozialpolitik (Tübingen).

FEBRUARY, 1919. The number described as the *eighth* of the series *Krieg und Wirtschaft* deals with economics of the transition period. The problems of *price*, *wages*, and *labour* in that period are discussed by Dr. ADOLF BRAUN. The most distinctly fore-seen development is a great increase in the employment of women. The restoration of private rights suspended by hos-tilities, the housing question, and the need of economic teaching are dealt with in three following articles. The editor, Prof. E. Lederer, concludes his survey of the economic dislocation [*Umschichtung*] during the war.

Giornale degli Economisti (Rome).

MAY, 1919. *Gli odierni aspetti dell'economia dei trasporti.* CARLO DI NOLA. *L'imposta sui profitti di guerra.* L. NINA. *Le statis-tiche e le relazioni periodiche nella burocrazia.* EPICARMO CORBINO.

JUNE. *L'industria nazionale delle costruzioni navali.* D. GUIDI. *I figli di guerra.* M. BOLDRINI. Statistical researches on the fecundity of Italian soldiers.

JULY. *Sulle valutazioni della Richezza Nazionale.* C. GINI. The writer defends the method of valuing national wealth employed by him in his *La Richezza Nazionale. Industria della Costruzioni navali e industria dell' armamento.* EPICARMO CORBINO.

La Riforma Sociale (Turin).

MARCH–APRIL, 1919. *La richezza nazionale e il costo economico della guerra.* PASQUALE JANNACONE. *La liquidazione dei debiti di guerra.* W. R. SCOTT. Two portions of Prof. Scott's "Economic Problems of Peace after War" are here translated into Italian. *Gli effetti dei Censimenti delle denuncie e dei sequestri.* F. PATETTA.

MAY–JUNE, 1919. *La via che seguiremo.* The "Christian-Social School," represented by Lamennais, Manning, Davies, and Tonioli, does not dispense with the classical school. *La leva sul capitale.* F. Y. EDGEWORTH. A translation of a lecture given at Oxford.

NEW BOOKS

English.

AGGER (E. P., Ph.D.). Organised Banking. London: Allen and Unwin. 1919. Pp. ix + 385. 12*s*. 6*d*. net.

[The outcome of a course of lectures delivered at Columbia University, where the author is an Associate Professor of Economics.]

BOOTH (MEYRICK). Social Reconstruction in Germany. London: Allen and Unwin. 1919. Pp. 36. 1*s*.

CALVERT (A. F.). Salt and the Salt Industry. (Pitman's Common Commodities and Industries Series.) London: Pitman. 1919. Pp. vii + 151. 2*s*. 6*d*.

CANNAN (EDWIN). Coal Nationalisation. Précis and evidence offered to the Coal Industry Commission. London: P. S. King. 1919. Pp. 36. 2*s*.

[Professor Cannan here prints the complete text, which is abbreviated in the published Minutes of Evidence.]

China National Defence League. The World Peace and Chinese Tariff Autonomy. London: Allen and Unwin. Pp. 12.

[A plea for the removal of tariff restrictions in China. The rights of China in other respects are advocated in some companion pamphlets, published under the same auspices.]

COOPER (W. R.). The Claims of Labour and of Capital. With a prefatory note by the Right Hon. G. H. Roberts, Food Controller. London: Constable. 1919. Pp. 84.

Garton Foundation Memorandum on Industrial Situation after the War. London: Harrison and Sons. 1919. 2*s*.

HATCH (F. H.). The Iron and Steel Industry of the United Kingdom under War Conditions. A record of the work of the Iron and Steel Production Department of the Ministry of Munitions. Privately printed for Sir John Hunter, K.B.E. London: Harrison and Sons. 1919.

HOBSON (J. A.). Taxation in the New State. London: Methuen. 1919. Pp. xii + 254. 6*s*.

[Reviewed above.]

HUGHES (W. R.). New Town. A Proposal in Agricultural, Industrial, Educational, Civic, and Social Reconstruction. Edited for the New Town Council by W. R. H. London: Dent. 1919. Pp. 141.

KELTIE (SIR J. SCOTT) and EPSTEIN (M.). The Statesman's Year Book, 1919. London: Macmillan. 1919. 18*s*.

[Among the additions of this year are three new sections, on Czecho-Slovachia, Iceland, and Poland.]

KITCHENER OF KHARTOUM. A Patriotic Road to Wealth. Chesham: The Carlton Press. Pp. 41.

[The importance of emigration to British East Africa is urged.]

MACKINDER (H. L.). Democratic Ideals and Reality. A Study in the Politics of Reconstruction. London: Constable. 1919. Pp. 272.

MARRIOTT (J. A. R., M.P.). The Right to Work. An Essay introductory to the History of the French Revolution of 1848. Oxford: Clarendon Press. Pp. 98. 1*s*. 6*d*.

[Originally printed as an Introduction to an edition of Louis Blanc's *Organisation du travail*, and reprinted as applicable to present labour problems.]

MARSHALL (ALFRED). Industry and Trade. A study of industrial technique and business organisation; and of their influences on the conditions of various classes and nations. London: Macmillan. 1919. Pp. xxiv + 875. 18*s*. net.

[Book I., Some Origins of Present Problems of Industry and Trade; Book II. Dominant Tendencies of Business Organisation; Book III. Monopolistic Tendencies: Their Relations to Public Well-being; 16 Appendices. To be reviewed.]

MONEY (SIR LEO CHIOZZA). Fifty Points about Capitalism. London: Palmer and Hayward. Pp. 50. 6*d*. n.

[Reprinted from the *Daily Herald*.]

MORRIS (DAVID B.). The Stirling Merchant Gild and Life of John Cowane. Stirling: Jamieson and Munro. 1919. Pp. 367. 7*s*. 6*d*. net.

[In two parts:—I. The history of the Stirling Merchant Gild in relation to gilds generally and to the growth of Scottish municipal institutions; and II. A life of a typical Scots merchant of the early seventeenth century.]

PAGE (W.). Commerce and Industry. A Historical Review of the Economic Conditions of the British Empire from the Peace of Paris in 1815 to the Declaration of War in 1914, based on Parliamentary Debates. Edited by William Page. With a preface by Sir Wm. Ashley. London: Constable. 1919. Vol. I. Pp. xvi + 492. Vol. II. Tables of Statistics for the British Empire from 1815. Pp. xx + 239. 32*s*. net

SAMUEL (A. M.). The Herring: its Effect on the History of Britain. London: Murray. 1918. Pp. xx + 199.

SHADWELL (ARTHUR). Coal Mines and Nationalisation. Reprinted from the *Times*. London: Longmans. 1919. Pp. 32. 1*s*.

STAMP (J. C.). The Wealth and Income of the Chief Powers. London: Royal Statistical Society. 1919. Pp. 67. 2*s*. 6*d*.

[A reasoned compilation of the best available estimates of great value in connection with indemnities and capital levies, read before the Royal Statistical Society on May 20th.]

TODD (J. A.). The Mechanism of Exchange. London: Milford. Pp. xiv + 273. 7*s*. 6*d*. net.

[A second edition, slightly altered and brought up to date, of the work reviewed in THE ECONOMIC JOURNAL, 1917.]

TOWLER (W. G.). The Nationalisation of British Industry. London: Municipal Society. 1919. Pp. 24. 3*d*.

[Against the nationalisation of coal and other industries.]

WEBSTER (A. D.). National Afforestation. London: Fisher Unwin. 6*s*.

American.

ALLEN (CHARLES R.). The Instructor: The Man and the Job. Philadelphia: Charles R. Allen. 1919. Pp. 373.

CARVER (T. N.). Principles of Political Economy. Boston: Ginn. 1918. Pp. ix + 588. 8*s*. 6*d*.

[To be reviewed.]

CLARK (J. MAURICE). Readings in the Economics of War. Edited by J. M. Clark and others. Chicago: University Press; London: Cambridge University Press. Pp. xxxi + 676. $3.

[A classified collection of extracts for use in American courses in economics.]

COLCORD (JOANNA C.). Broken Homes: A Study of Family Desertion and its Social Treatment. New York: Russell Sage Foundation. 1919. Pp. 208.

[The Superintendent of the Charity Organisation Society of the City of New York prescribes for marital unhappiness.]

COLLINS (CHARLES WALLACE). The National Budget System and American Finance. New York: Macmillan Co. 1917. Pp. 151.

COMMONS (J. R.). Industrial Goodwill. New York: McGraw-Hill. 1919. Pp. 213.

DOUGLASS (H. Paul). The Little Town, especially in its Rural Relationships. New York: Macmillan Co. 1919. Pp. 258. 6s. 6*d*.

[The book has grown out of the author's interest in rural progress.]

Federal Revenue Act. National Bank of Commerce, New York. 1919. Pp. 236.

[The complete text of the Act, with notes, tables, and index, is here presented. Very interesting tables are those which give tax on income of 1918 payable in 1919, and the less stringent tax on income of 1919 payable in 1920. The combined normal tax and sur-tax payable in 1919 is for $100,000 (say £20,000) $35,030, about 35 per cent.; for $500,000 (£100,000) the tax is over 64 per cent.]

HALL (FRED. S.) and BROOKE (ELIZABETH D.). American Marriage Laws in their Social Aspects. A Digest. New York: Russell Sage Foundation. 1919. Pp. 132.

[Proposals for reform of the marriage laws and a description of the laws.]

HOBSON (T. A.). Richard Cobden. The International Man. New York: Holt. 1919. Pp. 416.

KELLOGG (Paul N.) and GLEASON (ARTHUR). British Labour and the War. New York: Boni and Liveright. 1919. Pp. viii+504. $2 net.

LAUCHHEIMER (M. H.). The Labor Law of Maryland. (Johns Hopkins University Studies.) Baltimore: Johns Hopkins Press. Pp. 166.

MARSHALL (L. CARROLL). Readings in Industrial Society. A study in the structure and functioning of modern economic organisation. Chicago: University Press; London: Cambridge University Press. Pp. xxiv+1082. $3.50.

[A classified collection of extracts on the same as that edited by Mr. Clark, above.]

OVERLACH (T. W.). Foreign Financial Control in China. New York: Macmillan Co. 1919. Pp. 295.

STORY (R. M.). The American Municipal Executive. (University of Illinois Studies.) Urbana: University of Illinois. 1918. Pp. 231. $1.25.

SUMNER (WILLIAM GRAHAM). The Forgotten Man and other Essays. Edited by Prof. A. G. Keller. New Haven: Yale University Press. 1918. Pp. 559. $2.50.

[This volume completes the collection of Sumner's Essays. The essay which gives the volume its name had not been published before as a whole. When A and B, to benefit X, propose a law which C has to obey, C is "the forgotten man."]

WANG (CHING CHUN). Legislative Regulation of Railway Finance in England. (University of Illinois Studies.) Parts I. and II. Urbana: University of Illinois. 1918. Pp. 196. 75 cents.

[The author is Director of Kiu-Han Railway, China.]

WARBURG (PAUL M.). Acceptances in our Domestic and International Commerce. New York: American Acceptance Council, 111 Broadway. 1919.

French.

COLSON (C.). Cours d'Economie Politique. Paris: Gauthier-Villars. 1915, 1917, 1918.

[Three volumes with a total of 1,534 pages. The third volume contains an estimate of the cost of the War.]

HERCAULT (R.) and CHARRIAUT (H.). La liquidation financière de la Guerre. Paris: Félix Alcan. 1919. Pp. 96. Fr.2.

[A very useful compilation and criticism of various pronouncements, mainly but not entirely French, on the character and scope of the indemnity payable by Germany. The authors conclude with a plan for reconstituting the finances of Europe by founding a guaranteed international loan on the basis of the securities *to be given by Germany. The volume contains much of interest.]*

Haristoy (Just). L'Indemnité de Guerre et la Conscription des Richesses de l'Allemagne. Paris: Félix Alcan. 1919. Pp. 61. Fr.4.

[A plan for confiscating the property within Germany and administering it under the control of the Allies.]

Schelle (Gustave). L'Economie Politique et les Economistes, Encyclopédie Scientifique. Edited by Dr. Toulouse. Paris: Doin. 1917. Pp. xviii + 396. 6 fr.

Sorel (George). Matériaux d'une Théorie du Prolétariat. Paris: Rivière. 1919. Pp. 413. 7 fr.

German.

Beck (H.). Wege und Ziele der Sozialisierung. Berlin. 1919. Pp. 254. 8 Mk.

Bendixen (Dr. Friedrich). Währungspolitik und Geldtheorie im Lichte des Weltkrieges. Munich: 1919. Duncker und Humblot. Pp. 181. 8 Mk.

Borght (Dr. van der), Editor. Die Bodenreform. Ihre Ziele und ihre Wirkungen. Berlin: 1919. Carl Heymann. Pp. viii + 507. 10 Mk.

Dörnig (C.). Die Bevölkerungsbewegung im Weltkrieg. I., Deutschland. II., Oesterreich-Ungarn. Bulletin der Studiengesellschaft für sociale Folgen des Krieges. Kopenhagen: Bianco Cuno. 1919. 3 Kr. each.

Huth (Dr. Walther). Die Entwickelung der deutschen und französischen Grossbanken im Zusammenhange mit der Entwickelung der Nationalwirtschaft. Berlin: Franz Siemenroth. Pp. viii + 186. 6.30 Mk.

Schlesinger (Dr. Karl). Die Veränderungen des Geldwertes im Kriege. Vienna: Mansch. 1916.

[An address to the Hungarian Economic Society on the changes in the value of money during the War. Republished from the *Zeitschrift für Volkswirtschaft*. To be reviewed.]

Vatke (Dr. Hans). Die Verstaatlichung des Feuerversicherungswesen. Berlin. 1919. Pp. 111. 4 Mk.

Weber (Heinrich). Grundlinien einer neuen Forstwirtschaftsphilosophie. Tubingen: 1919. H. Laupp'sche Buchhandlung. Pp. iii + 116. 4 Mk.

Wellesch (Emmerich). Wollzölle und Wollindustrie in den Vereinigten Staaten von Amerika. Stuttgart: J. G. Cotta. 1919. Pp. vi + 96.

[No. 142 of the Studies published by the Munich School of Political Economy under the editorship of Prof. Lujo Brentano.]

Italian.

Gobbi (Uline). Trattato di Economia. Rome: Società Editrice. 1919. Pp. 653.

[A general treatise covering the whole field of economics.]

LORIA (ACHILLE). Corso di Economia Politica. Seconda Edizione. Turin: Bocca. 1919.* Pp. 761.

[This second edition of the eminent Professor's *Course of Political Economy* is compiled by Dr. G. Fenoglio from lectures delivered by Prof. Loria in the University of Turin.]

MICHELS (R.). Economie e felicità. Milan: Vallardi.

SUPINO (CAMILLO). La marina mercantile italiana. Bologna: Zanichelli. 1919.

TOTOMIANZ (PROF. V.). Armenia Economica. Con Prefazione di Luigi Luzzati. Rome: Formiggini. 1919. Pp. 86.

VINCI (FELICE). La mobilità della mano d'opera durante la guerra. Rome: "Athenæum." 1918. Pp. 4.

[This study on the rapidity of change in the *personnel* of operatives during the War is extracted from the *Rivista della Società Commerciale.*]

VINCI (FELICE). Sulle variazioni dei prezzi. Rome: "Athenæum." 1919. Pp. 18.

[A theory of price-variations connected with practical proposals, such as that of Gini, to reduce future payments of interest on national debts in accordance with falling prices. The pamphlet is extracted from the same review as the one above.]

THE ECONOMIC JOURNAL

DECEMBER, 1919.

THE SPECIAL TAXATION OF BUSINESS PROFITS IN RELATION TO THE PRESENT POSITION OF NATIONAL FINANCE[1]

I. *The Financial Problem.*

THIS paper is to be devoted mainly to a consideration of the expediency of taxing business profits in the present emergency, and will deal with the matter rather upon the economic or theoretical side, and pass more briefly over questions of practical administration and legal form. By way of preface to the subject, it is hardly necessary to occupy much time in proving that the present position of national finance is a serious one, and that the task of putting the revenue and expenditure of a normal year upon a sound basis is one of great difficulty. At the present juncture it is literally impossible to forecast the aggregate regular commitments that we should endeavour to cover by taxation or other non-loan resources, because we are in the dark as to the general policy that will be adopted in regard to subsidies for bread, coal, housing, for unemployment pay, etc., or as to whether there will be any charge upon the Exchequer for deficits on railways and the post office. There are many different estimates as to the probable deficit on the present basis of revenue, varying, perhaps, from 50 to 200 million pounds; and, despite the genuine efforts that are now being made to economise in administrative expenses (which, after all, are a small matter compared with the commitments of main policy), it seems not unlikely that the additional revenue which it is necessary to obtain if the budget is to be properly balanced will be nearer the latter than the former figure. In any case, it is not essential to the present purpose that the amount should be exactly determined; it is sufficient to indicate that a large gap exists on our present commitments, and that if we are to be solvent as a nation upon our Government account, additional sources of revenue must be found.

[1] Read before Section F of the British Association, at Bournemouth, September 12th, 1919.

II. *Suggested Remedies—A Choice of Evils.*

Apart from suggestions for minor taxes which, however useful and proper, do nothing more than mitigate the trouble, there are three main lines of thought at present active, viz. :—

1. A substantial increase of the income tax and super-tax rates.
2. A levy on capital—either upon all capital or upon war fortunes.
3. The taxation of business profits by methods which, while differing from the present excess profits duty, are lineally descended from it.

It is to the third of these that attention is now specially directed, but it is first necessary to give brief consideration to the other two proposals. For all taxation is objectionable to us personally, and has unpleasant reactions in economic life; therefore there is little positive pleasure in recommending or supporting a scheme of taxation. It is easy for a critic to point out difficulties of practicability, of equity, or of economic propriety, in almost any scheme; but we are faced with a dangerous situation, and we have to make a choice whether we like it or not. It is a choice of evils, and therefore nothing is gained by proving in the abstract that a particular proposal suffers from defects. The real thing we have to ask is, "Are its defects less or more than those of the rival schemes?" If one were sentenced to an unpleasant death, there would not be much point in the complaint that to be boiled alive is painful, where it is rather a question of the comparative merits of boiling and frying. With whatever zest that it is possible for human nature to summon in the selection of disagreeable alternatives, the enthusiastic search for truth in this matter is the commanding need of the moment.

III. *Increases in Income Tax.*

We may look briefly at the first proposal. The taxation of income by increased rates may be resolved into an attempt to obtain a much larger amount from the lower incomes or from the highest incomes, or a general increase throughout the scale. The first alternative is full of political difficulties. The current tendency to give effective recognition to differential ability in the payment of taxes owing to the possession of a wife and family means that in practice the exemption limit is already in the neighbourhood of £250, and that we have a tax on bachelors and spinsters. One has only to consider the problems raised at this

point by the attitude of the miners and others to decide whether or not it is a politically practicable proposal that persons with incomes between £70 and £200 per year shall bear an average burden of £20 per head. At the opposite end of the scale the suggestion that the higher incomes, viz., those above £3,000, should bear a graduated scale rising to 16s. or 17s. in the £, or even to total extinction of the amount above certain levels, raises economic issues rather than political ones.

If, as appears to be the case, the mainspring of action in the production of capital for new enterprise is to be found in these classes, it is probable that the economic check to the accumulation of capital would be very serious. If the inducement to put by money with the expectation of an 8 per cent. dividend really resolves itself into 2½ or 3 per cent. net, or if not more than 1½ to 2 per cent. net can be obtained from War Loan, the pressure to "eat, drink and be merry," and to discount future goods as compared with present pleasures, must become very marked.

It may be argued, of course, that all taxation has to be borne out of income, and that if you impose it in other ways the effect will be the same. Such a contention would ignore the psychological aspects of the case, and the patent fact that one line of action can easily be pushed beyond a point where it is continuously profitable.

It may well be that if the various forms of relief in the scope of charge which are being urged before the Royal Commission on the Income Tax are given effect to, the area of taxation will be so diminished that a considerable increase in the actual rates of tax will, in any case, be required to *maintain* the yield. If such be the case, there is all the less scope for meeting the present emergency by this plan.

IV. *A Levy on Capital.*

The second course, viz., the levy on capital, either as a whole or on capital accumulated during the war, is a proposition which has had great publicity, and the main issues of which are fairly well known. It is not desired to deal at any length with the subject in this paper, but it will suffice to say that, despite its obvious virtues, the proposal has many grave defects. In the first place its practical difficulties in relation to the assessment of life interests, reversions, trusts, insurances and the like, are so considerable that it could not be carried through on simple lines. It is greatly feared that it would be handicapped by what is the greatest curse of any tax, namely, a feeling of injustice or annoy-

ance on the part of the majority of the payers. It could never be the "single bite" or the "clean cut" that it is often represented, for the instalment system for unrealisable wealth, the annual adjustment system necessary for all capitalisation of highly fluctuating profits, the periodic revision of all valuations made in the light of future contingencies which fail to materialise according to the actuarial basis adopted (*e.g.*, life interests and reversions); and, fourthly, the high annual income-tax upon earned incomes proposed as a counterpoise for that class of wealth, would all constitute a mass of continuous and sustained tinkering with the original impost; so that, instead of the so-called single effort "and done with it," we should have an assessment hanging round our necks for a generation.

Its second serious defect is that, while its advocates amongst economists find its justification in a pure commutation of future high rates of income-tax, it could not in practice be an actual commutation, and there is no kind of political guarantee that it will really be a commutation at all. Outside of the economic support on this ground, the main impetus for the scheme comes from those who are not prepared to give any guarantee of non-repetition, or of lowered income-tax, but desire to have both the levy now and the future high rates of income-tax also ready to be devoted to other purposes and new social objects.

Thirdly, the effects upon the economic stimulus to the accumulation of capital and extension of production, if non-repetition is not guaranteed, or, indeed, is not probable, have never been properly worked out, but they must, at least, be very important. Nothing in the history of the past as to the economic character of the saving instinct, or of the provision against future contingency, or of the relation between interest and waiting, or interest and abstinence, or interest and the discounted value of future goods against present goods, throws any light upon such a problem as is presented by the prospect of a substantial confiscation of savings at irregular intervals within the lifetime of the person saving or expected to save. All business enterprise, all provision against domestic disaster, all insurance, take on a new and unknown element of risk.

Fourthly, the capital levy cannot properly be related to the principle of ability to pay, because the ability varies from year to year according to personal circumstances in the most striking way, and, therefore, cannot be commuted, whereas the burden of the levy is, by hypothesis, a commutation of the burden upon income over a long period.

Fifthly, the levy proposal cannot deal satisfactorily with the distinction between the gains of profiteering and ill-gotten wealth as compared with the results of pure thrift and worthy enterprise *in the past.*

Sixthly, it does nothing towards the problem of *future* profiteering, and acts in no way as a brake upon those dynamic elements of the present and the future in our social system which we are anxious to see brought under control. In the writer's judgment, although circumstances may indeed compel us to resort to it, the proposal is so full of dangers and defects. which are perhaps not quite so superficially obvious as its advantages and virtues, that we should be well advised to consider whether the dangers and defects of other alternatives are not to be preferred.

V. *The American Excess Profits Tax.*

This paper is to be devoted to a consideration of the taxation of business profits as such, apart altogether from the individual interests therein, and, primarily, to seeing whether such taxation, as exemplified in the American system, has any sound basis in economic doctrine, and can be justified by the broad principles of taxation; whether it is likely to have any bad effects upon production and the accumulation of capital; and, briefly, whether its practical difficulties are such as to condemn it.

Taxation of business profits, or an excess profits duty plan different from the plans adopted by England and other European States, was first introduced in Canada in May, 1916, but in the German scheme introduced earlier the rate of charge upon the excess depended closely upon capital also. The Canadian plan ignored pre-war profits, and gave a standard of 7 per cent. for companies and 10 per cent. for individuals, limiting the tax to businesses with a capital over £10,000 (unless they were munitions businesses), and charging a flat rate of 25 per cent.

The first American tax was a mere flat rate or 12½ per cent. on net profit of munitions manufacture—in short, a specialised income-tax. Then, in March, 1917, followed a true excess profits tax, a flat rate upon profits above 8 per cent. upon capital. This was changed by the Senate to a tax on war profits, and then changed back to a graduated tax on supernormal income—"a conscious and deliberate victory of the excess profits principle over the war profits." By "war profits" we in England of course mean profits *due* to the war; but in the States the term is used for profits made during the war in excess of pre-war times, for which we use the term "excess profits." The term "excess

profits" they reserve for profits in excess of an even and *general* standard. The reason for the change was that "pre-war prosperity could establish no just ground for exemption during the war." The standard was not less than 7 and not more than 9 per cent. on capital, or 8 per cent. if there were no pre-war profits. The tax on the excess was progressive, and the rates until recently were 20 per cent. on the excess profit up to 15 per cent.; 25 per cent. on the excess from 15 to 20 per cent.; 35 on the excess from 20 to 25 per cent.; 45 on the excess from 25 to 33 per cent.; and 60 per cent. on the excess profits over 33 per cent. In the case, therefore, of a business making 35 per cent., the true net rate would be 24.8 per cent. on the whole profit, reducing it to a distributable yield of 26.3 in the following way:—

	Capital £10,000	Profits £3,500.
Tax on first, say	900	Nil.
" next	600	15% = 90
" "	500	25% = 125
" "	500	35% = 175
" "	800	45% = 360
" "	200	60% = 120
Tax on	£3,500	= 870
	or 24·8%	

The yield on capital would be reduced from 35 per cent. to 26.3.

It will be seen, therefore, that on this method of taxing by "slices" the final rate of the scale must be very high before the average rate is at all heavy. For example, the true rate on a 20 per cent. profit is 10.75 per cent. only, reducing the profit to 17.85 per cent. on capital. A 15 per cent. dividend would be 14.1, allowing for the tax. If the rate of profit was 100 per cent., the tax would reduce it to 52.3 per cent.

It is difficult to see how this gradual entry into taxation can constitute at any ordinary point a severe deterrent to personal enterprise beyond that point.

VI. *A Tax on Business Profits from the Standpoint of the Individual.*

It is useless to show that a proposed tax is practicable, and innocuous in its economic effects, if it is inherently unjust, and the consideration of its equitable character must precede the treatment of other aspects. We are in the habit of judging fairness in a tax by reference to the principle of ability to pay, which, in its modern application, means the ascertainment of the amount of taxation finally borne by an individual, the reduction of it to

terms of a percentage of his income, or a rate of income-tax. and then the comparison of the burden with that borne by other individuals in receipt of larger incomes. After determining the amount of "income," and adjusting it by reference to its character and the special family obligations upon it, we expect to find the total burden progressive with the income, or we should deem the whole system unfair, and should search out the particular taxes which introduced the anomaly, and condemn them. We are prepared to do this not only for all direct taxation, such as death duties and house duty, but also for indirect taxes that fall upon the necessaries of life and cannot be escaped. Such a method was adopted by the Rt. Hon. Herbert Samuel in his recent address upon the taxation of different classes of the people. In the application of this method we incline to stop short at the tax paid upon luxuries, which cannot fairly be judged on the principle of ability or by reference to the *amount* of income of the individual.

Now the war-time excess profits duty could not be brought into the line of justice on this principle at all. Two companies might be identical in capital, pre-war profits and excess profits, and yet in the one instance the shareholders might be all poor, or might be persons whose *total* incomes were reduced, and in the other the shareholders might be millionaires, or persons whose total incomes had greatly increased, and if the effect of the payment of duty were traced forward as an individual tax, in a reduction of potential dividend, we should find the principle of ability violated in the most extreme ways. So we are driven to enquire on two points, viz., whether the principle of ability can apply only to an *individual*, as such, and whether it must be judged by the *amount* of income. Taking the second point first, the question is being asked, not merely *how much is his income?* but also, *how* did he get it? It might appear that the first recognition of this point was in the differentiation between "earned" and "unearned" incomes in 1907, but in reality the reasons for the differentiation will be found on enquiry to rest in the greater obligations on the *spending* or *expense side*, which necessarily fall upon the person whose income depends on his personal exertions rather than his personal possessions, and it was not conceded because the "unearned" income comes "more easily." The aspect of "ability" opened up by the question, "How do you get it?" was first prominently brought out by the campaign for taxing the "windfall"—that income which comes by good luck or fortune, independent of thrift or exertion, and which, being relatively unexpected, has a special power to bear taxation with-

out hurt to the payer. The present writer has elsewhere called this power or capacity "special faculty," and it was put forward as the justification for taxing the "unearned increment" in the increment value duty and the reversion duty, and less clearly for the mineral rights duty. In a rough-and-ready way it was the popular justification for the excess profits duty. There was no nice comparison between the business which made 30 per cent. before the war and continued to make 30 or 35 per cent., and another which rose from 10 to 20 per cent., and so paid a larger tax. The pre-war amount of profit was accepted as that to which there was a normal title, and anything above it was "war luck," a "windfall"—something which had a special power to afford a tax. As the Chancellor frequently said: "Any business which in these difficult times has more than it had in pre-war times may be reckoned *fortunate*," and it was this good fortune that gave the basis of principle to the tax. But as we have seen, it is not necessarily good fortune to an individual shareholder viewed in the light of his total circumstances. All that can be said to the individual is: "We know that your income as a whole has shrunk from £1,500 to £1,000, and the income-tax progression will properly recognise that fact. We are concerned with that particular dividend of £100 which, through no virtue of yours, would now be £200 during the war, if it was not taxed, and we frankly pick it out for special treatment and take a part of the increase because of its windfall or "lucky" character. The exigencies of the times are such that we cannot be a partner in your losses and give you a set-off for the dividends that have diminished. This is the only kind of answer that can possibly be given to the individual so far as the old excess profits duty is concerned, apart from the question of practical expediency. We are still left to consider excess profits as they exist apart from war-time, and to ask whether, granted there is "special ability," a windfall, or "luck" receipt, such special ability can be independent of the amount of individual incomes and reside even in a corporate or non-personal body.

VII. *Collective Taxation in Practice.*

In 1917, in analysing the duties on excess profits in various foreign countries, the present writer endeavoured to discover the underlying principles, and came to the following conclusion [1]:—

"It is possible to regard the excess as a taxable unit, totally unrelated to any other factors, and in that case it may be sub-

[1] ECONOMIC JOURNAL, March, 1917.

jected to a flat rate, producing a tax proportional to the amount of the excess, or it may be graded in absolute steps, giving a progressive scheme. But the excess may also be viewed in its relation to other factors; it may be compared with the amount of the standard profit, and made to bear a tax which is heavier according to the greater relative amount of the excess; or it may be looked at in relation to the capital of the business, either by the percentage which the total war-period profit bears to that capital, or by the percentage which the excess itself bears thereto, and a progressive scale applied. In actual fact all these variants appear, but they are not all consistent in principle. In nearly all cases the profits of a business are taxable as a unit, and without regard to the circumstances of the *individuals* who are interested in that business either as shareholders or partners. It may be that tax-paying capacity is avowedly in principle attached to the business as such without going behind it to its proprietors; or, on the other hand, it may be that, without any nice regard for principle, the convenience of the method as a taxing and collecting device is the chief consideration. Dr. Helfferich, introducing his measure, said that it was most important to get the profits of corporations at the source, and not to wait, before attempting to reach them, until they had been divided into their components in the hands of individual shareholders, for that attempt would often be unsuccessful He said that if the profits were divided they would be lost to taxation, and this was not merely the plea of convenience in administration, but also his only defence of the double taxation existing under the German scheme."

VIII. *The Theoretical Basis.*

"A theoretic basis for the proportional taxation of the excess profit (unrelated to any standards)—*i.e.*, at a flat rate—may perhaps be found in the benefit principle, if it is postulated that the State and the community during war-time supply elements through which excess profits arise, and that such external assistance is unrelated to previous circumstances or to the absolute size of the business. Under this conception, the "tax" element is in the background, and the position emerges that the payment is a *business* expense, a royalty, a condition precedent to the making of profit. It is a payment out of gross profits *before they can become income at all.* If excess arises through increased output at original prices, the communal necessities have provided the conditions under which that supply is taken up, and a charge is made for supplying those conditions; if the excess arises through

higher prices on normal output, the State makes a similar charge. Apart from the rare cases where excess is due entirely to reduced expenses, these two classes, or a combination of them, cover the field, and a proportional charge is, at any rate, comprehensible on this principle. The basis for a progressive charge on the simple excess is not so clear without recourse to some element of faculty. As soon as it is decided to relate the excess to a basis of capital or pre-war profit, before applying a progressive tax, the popular idea as to special war-time "ability to pay" seems to have a chance to operate; but, of course, it is as far off as ever from a working principle because the popular idea is always associated with the principle of sacrifice and with what the fortunate individual can *afford* to pay. But apart from the fact that every individual shareholder in an excess-making company may for other reasons have a reduced *total* income, which is a consideration affecting *all* attempts to get down to the individual in this class of taxation, we have this peculiar difficulty attaching to any relation between profits and capital; a company with 30 per cent. normal profit having 6 per cent. extra is made to pay a higher rate than a company which had 6 per cent. and rises to 12 per cent., whereas it may well be that all the *present* holders of the former company bought on a 5 per cent. basis, and realise now, as individuals, 6 per cent. only on their outlay. Their outlay is, of course, not *in the business*. If, however, the progressive income tax is left to look after individual faculty and the tax on excess profits is not regarded as a tax on incomes at all, another basis may be found for a progressive tax according to yield upon capital. Each business may be looked upon as a collective entity of "hard assets" with a capital *cost value*, to which there is attached, with its ordinary human association, a normal accretion of products—viz., average interest; then any concern, which by fortunate *Konjunctur* has a much larger normal accretion than others (*i.e.*, a real goodwill) has a greater *capacity* to bear tax thereon without impairment of its present or progressive productive power. Thus by vesting an impersonal faculty in each self-contained aggregation of assets this form of taxation may be reached."

IX. *Collective Ability.*

It will, I think, be agreed that taxation on the American model, but more finely graded, is much more easily defended on the principle of ability than the British war-time duty. Professor Adams has said that the tax "represents, as it were, the

share of the State in the 'supernormal' success of every business enterprise. It measures roughly the value of the facilities, opportunities, and environment provided by the community."

He states his opponent's challenge very fairly that an income or excess-profits tax of any variety upon a business unit is illogical; that its principal incidence and burden are upon the stockholders; that there may be relatively strong stockholders in weak corporations, and very weak stockholders in strong corporations; that so far as possible we should avoid the intermediary, the go-between, and employ only the personal income tax. He says: "At the basis of this criticism will be found an assumption, conscious or unconscious, that all direct taxes are to be approved or condemned according as they conform to, or depart from, the ability standard."

"But it is a shallow interpretation of the ability principle that tests its every application by the effect of the tax upon the consumer, which surveys the taxpayer only as one who clothes his back and feeds his body. There are many valid varieties of the ability principle, and among them are those which survey the taxpayer in his capacity of producer, which recognise the reality of a composite business unit, which appreciate the truth that the State and community stand as silent partners in every business enterprise." [1]

He concludes that the American tax is not a tax upon the individual, to be judged by the sacrifices which it imposes upon him, but the prior claim of the State upon profits which public expenditures or the business environment maintained by the State have in part produced.

X. *"Betterment" and "Benefit."*

Professor Adams also adopts the analogy of American special assessments or betterment taxes where no cognisance is taken of the individual's ability to pay, and concludes: "For much the same reason, when an excess-profits tax is levied upon a corporation or partnership, no cognisance need be taken of the tax-paying ability of the shareholders."

We may fairly agree with his conclusion that "Business concerns, furthermore, do possess an organic unity; they are, when compared with one another, less able or more able to pay; the ability standard does apply to them as corporate or business entities."

[1] "Federal Taxes upon Income and Excess Profits." *American Economic Review Supplement*, March, 1918.

But at the same time we must not go too far with Professor Adams in the analogy with betterment, which is essentially levied on the benefit principle. As Professor Seligman says: "The essence of a special assessment consists of a measurable benefit accruing to an individual as a member of a definite area, from a particular service rendered, and calling for any outlay by the Government. In a tax there is never such a particular service nor a separately measurable benefit. The criterion is not benefit, but faculty or ability to pay. The confusion arises from the failure to observe, as was pointed out many years ago, that ability connotes not only the old-time consumption or sacrifice element, but also the production or privilege element. A business tax is none the less based upon ability to pay because the predominant criterion may consist in the profits derived in part from the privileges due to the general economic or legal environment. The excess-profits tax is a tax in which, as in many others, the ability of the tax-payer is measured, in part at least, by the privileges enjoyed. It is not to be confounded with a special assessment. There is no special measurable benefit conferred by a particular service rendered, and involving an outlay, by the Government."[1]

Professor Seligman finds, however, that, granted the practicability of accurately ascertaining both capital and income, the relation between the two is unsatisfactory as a basis for a progressive tax. He considers that this is due "to the criterion chosen for the basis of the graduated scale. Something can be said for a graduated tax on income; something can even be said for a graduated tax on capital; but it is difficult to say anything in defence of a tax which is graduated on the varying percentage which income bears to capital. To penalise enterprise and ingenuity in a way that is not accomplished by a tax on either capital or income—this is the unique distinction of the law. For, *in the first place*, while it is true that excess profits are sometimes the result, in part at least, of the social environment, they are not infrequently to be ascribed to individual ability and inventiveness. While it is entirely proper that a share of the profits should go to the community, it is not at all clear that the tax should be graduated according to the degree of inventiveness displayed. But there is a still more important consideration. Almost all large businesses have grown from humble beginnings, and it is precisely in these humble beginnings that the percentage of the profits to the capital invested is apt to be the greatest.

[1] *Political Science Quarterly*, March, 1918.

The criterion selected, therefore, is the one best calculated to repress industry, to check enterprise in its very inception, and to confer artificial advantages on large and well-established concerns. Nothing could be devised which would more effectively run counter to the long-established policy of the American Government toward the maintenance of competition."

XI. *Progression According to the Size of Business Units.*

He suggests an alternative that does not appeal to the present writer in the least, viz., that the excess-profits tax should become a progressive income tax, which would be progressive according to the mere size rather than the success of business. This would be a serious counterpoise to the economies of amalgamation.

He justifies this, of course, by the greater "power" in production possessed by the larger capital. But surely this power can be best determined not by mere presumption, but by results, viz., the higher yield upon capital. If trusts are to be encouraged because of the possibilities of economies and efficiency, but limits are to be set to their opportunity for abusing their strength, this is hardly the kind of limit we want; it is a frank deterrent to large-scale production. Being payable whether there are *profits* or not, in the case of a large concern, it tends to become an element in the cost of production of large concerns, cancelling their savings in other directions; it would exist at the margin of production and so enter into price and be borne by the consumer.

American experience seems, however, to be that the larger concerns do *not* in fact tend to make a higher ratio of profit, but rather the reverse.

XII. *What is the Incidence of the Tax?*

All persons acquainted with modern economic analysis will recognise that the generalisation of the rent conception which has followed upon the marginal principle in production has most important bearings upon the question of the incidence of taxation. If the price or reward necessary for a given factor in production, whether interest or wages, is fixed by the reward payable to the marginal supplier, the superior reward paid to a person with a position of advantage is in the nature of economic rent, and, as its withdrawal would not lead to the withdrawal of the supply, it is capable of bearing taxation without further shifting. Mr. J. A. Hobson is, perhaps, our most thoroughgoing

exponent of this analysis, and he divides the reward paid into "costs" and "surplus." The taxation of costs cannot in direct theory be achieved—it is thrown off, either because the reward *essential* to maintain the offer is diminished and the offer is withdrawn, or because the efficiency of the agent offered is diminished. For example, if a man is having a bare subsistence wage he may be made to *pay* a tax, but the final burden of it is shifted to the community, for his diminished efficiency reacts on price. Similarly, if the minimum interest which induces a given bit of saving is encroached upon, the saving is withdrawn, the supply of capital diminished, and its general price to others increased. But where tax falls on "surplus" it stays there. Mr. Hobson sets out to show :—

> (1) "That all taxes must be treated as deductions from real income.
>
> (2) "That income is divisible into (*a*) economically necessary payments for the use of factors of production, *i.e.*, costs. and (*b*) unnecessary or excessive payments, *i.e.*, surplus; and
>
> (3) "That all taxation should be directly laid upon surplus, because, if any taxation is put upon 'costs' the process of shifting it on to surplus first involves waste and damage to production, and is frequently made a source of extortion from consumers; secondly, deceives the public by concealing the final incidence."

He elaborates a new kind of "ability to pay," viz., that power to suffer finally and without affecting production which surplus, or the non-functional sections of reward—reward not required or earned in an economic sense—alone really possesses. This is an extension of the "windfall" or special faculty principle to which I have already referred, and is quite different in character from what is ordinarily reckoned as "ability," which relies on quantitative rather than functional or qualitative tests.

If no economic friction existed, taxation would rebound continually from all elements of costs, shifting and shifting until it all rested finally in "surplus." But friction exists to a most important extent, and there is a rival tendency for taxation to stick where it is first laid on, so that the theoretical result is not achieved, even imperfectly. Mr. Hobson admits that "at present it suffices to register a clear judgment to the effect that it is not feasible or equitable to attempt to earmark and attack for revenue the separate items of surplus as they emerge in the present distribution of rent or dividends or profits."

As the test is not quantitative it is not possible to discern

easily which elements of income possess this peculiar quality of final inability to shift taxes, and which are pure costs. The principle of surplus is, therefore, not available directly as a practical canon in taxation. But Mr. Hobson presumes that these rental or surplus elements are more likely, *prima facie*, to exist in the incomes of larger amount—the larger the income the greater the *proportion* of it which is rental and not costs—so that a progressive income tax in a rough way is taxation on the principle of surplus. But in the writer's judgment this assumption is so little likely to accord with the facts that a progressive tax can hardly be based upon it. For an income of £1,000 from a happy investment in oil or rubber contains a great deal of surplus, whereas an income of £10,000 from house property or consols contains none at all

XIII. *Possible Tendencies of Progressive Taxation.*

Mr. Hobson's contention at least raises in the mind the question whether, indeed, progressive taxation in itself might not have a tendency to bring about the very condition of things upon which his assumption is based. If there is a tendency for taxes to rebound from certain elements of income like a golf-ball from hard surfaces, might there not also be an economic tendency for such elements to group themselves where they are least subject to the temporary hurts or annoyances of the heavy rebounds. In so far as the surfaces are free to choose, would they not tend to group according to lines of least resistance? If War Loan interest *cannot finally* bear taxation, would it not tend to be found where the smallest tax burdens are imposed, and would not interest which could bear heavy taxation get forced into the section where such taxation was found? If this were the case, people with smaller incomes would enjoy the advantage of immunity from the temporary hurt of taxation on pure interest as compared with people with large incomes, and this advantage might give them superior purchasing power over such investments. The contention, as a practical one, is somewhat strained and useless, but it might have some validity as a theoretical corollary from Mr. Hobson's teaching. It could be true, however, only so long as the lucky investment yielding surplus is a new one, and has not been sold in the market.

XIV. *"Surplus" cannot be specially reached by a Progressive Income Tax.*

Another reason why the "surplus" principle as applied to individual taxation is wholly impracticable, is that the element

which is functionally surplus at its economic origin may cease to be such at its economic destination. For example, A. invests £100 in a venture which is paying 6 per cent. The venture "strikes lucky" and makes 24 per cent. A. has then a surplus capable of bearing taxation. The shares rise from £1 to £4, and he sells to B., who henceforth secures only 6 per cent. on *his* outlay, which ceases to have any surplus so far as he is concerned, for A. has capitalised the surplus in the sale. If B. knows that he is to be followed up, and that his 6 per cent. is to be picked out and heavily taxed because it originates in surplus, he will depress the purchase price, and pay less than he otherwise might have done, and so, although apparently paying the tax, actually pass it back to A., who, in capitalising the surplus, also capitalises the tax on it. But, as a practical proposition, the idea of following investments yielding 6 per cent. to their purchasers is quite hopeless. Equally, Mr. Hobson's suggestion that an income tax which is progressive by the size of individual income, will also roughly achieve the taxation of surplus, breaks down completely directly sales of stock at a premium, due to high earning power, are made. Let A., as above, a wealthy man, be thus taxed on his surplus by the high progression of the income tax; he then sells at £4 to B., who is a poorer man, and so has no weighty tax to bear and with which to depress the purchase price. A. invests the money in War Loan, which, *ex hypothesi*, has little or no surplus.

If the only way of taxing surplus is by a progressive income tax, it would be thwarted every time the wealthy sold investments standing at a premium to their less wealthy neighbours, and put the proceeds in stocks with ordinary fixed yields; for, by hypothesis, the taxation would be thrown off their new class of income, and the poorer purchasers would, by the progressive system, not be paying tax at all. The ultimate result of the ensuing general diffusion would appear to be that taxation lowers the net return of pure interest on general capital and discourages accumulation to a greater extent than it would do if it could be imposed upon surplus and induced to remain there.

XV. *"Surplus" may be reached by a Special Levy.*

Would it not be nearer the truth to say that the bulk of the "surplus" in amount is the *"profit-surplus,"* which can be tested in a fairly approximate way by an abnormal or unusual yield per cent. upon capital invested? It is true that 15 or 20 per cent. in a private business may represent the result of applied ability or inventiveness on the part of the proprietor. But in the

majority of cases where a yield of 20 or 30 per cent. is forthcoming, 10 per cent. would have satisfied the claims of the investor as costs (*i.e.*, pure interest and reward for risk bearing), and the balance is surplus—due possibly to unforeseen circumstances or luck, or due to good management, but good management by a paid official and not by the investor. This particular canon of taxation admittedly cannot be applied on the individual income, especially having regard to the possibility of piling up reserves and enhancing capital values, but it can be reasonably approximated to if the stream of profits is tapped higher up before distribution.

In principle a tax of the American model gets nearer to the taxation of surplus and the exemption of costs than any other kind of tax. Moreover, the tax becomes the more substantial the greater the amount of apparent "luck," and therefore the greater the presumption of real surplus is. Further, the more the necessary revenue can be raised in this direct imposition upon surplus, and the less there is reliance upon progressive income tax to reach surplus, the less depression there will be in the rate of pure interest (following upon the conclusion of the last paragraph) and the less the general discouragement to saving.

XVI. *Economic Effects.*

This consideration leads directly to an important economic question : *Does the tax enhance prices?* Anyone acquainted with economic analysis will know that it is very unlikely, as a general principle, that it should do so. It is often claimed in the business world that the present Excess Profits Duty is added to price and recovered from the consumer. But the implication that a business man does not already charge as much as the market will bear without curtailing demand is rather an important one and needs justification. This effect may indeed be found where demand is very inelastic, and where practically the whole supply is from taxed sources. Such conditions were frequently found in the desperate need of the Government for particular supplies which only a limited number of firms could supply, and contractors clearly made the Government "pay their own tax." In my view there was very little truth in the contention that the Excess Profits Duty raised prices until, perhaps, late 1917 and 1918, when it may have had some tendency in this direction. But for a graduated tax which applies only lightly over the major part of a supply, and with competitive forces freely working, such a result is far less likely.

Where purely competitive conditions of price exist, it is pretty clear that the fortunate few cannot add the tax to the price without giving the marginal producers an opportunity to increase their output. Where monopoly conditions exist for a commodity, subject to reasonable elasticity of demand, the price has by hypothesis already been fixed to give maximum *profits*. If the tax is graduated, this maximum profit, minus the tax upon it, will always be more than a less profit minus its appropriate tax, except in the extreme event where the capital required is profoundly affected. It is important to remember that under a progressive tax the total burden is greater if the profits fluctuate widely from year to year than if the same aggregate profit is evenly spread in time. Here is a most important influence making for steadiness in trade and for wise forward buying or selling to keep prices even, and so removing one of the causes of economic instability.

XVII. *But the Tax may Cheapen Goods and Encourage Production.*

Assume a monopoly revenue of £50,000 upon £100,000 capital (or 50 per cent.). It may be that the monopoly revenue on the larger supply (only to be absorbed at a lower price) from a capital of £130,000 would be £52,000 (or 40 per cent.) and the extra £2,000 profit resulting from the larger supply from the extra capital of £30,000, being only 6⅔ per cent., is not considered worth while. If the graduated tax reduces a 50 per cent. yield to 35 per cent., the monopolist would be left with £35,000 made on £100,000, but it might reduce a yield of 40 per cent. only down to 33⅓ per cent. and leave him with £43,333 in the second case instead of £52,000. In this case the employment of £30,000 more capital may yield £8,333 more net profit, or nearly 28 per cent., and so be well worth while. The monopolist will be induced to supply a larger quantity of goods at a much lower price, because the differences in the total yield of capital are so much reduced in taxation, and the relative yield of marginal capital so much increased.

XVIII. *What would be the Effect upon Capital Accumulations and Thrift?*

There is no doubt the tax must have some tendency to damp initiative—the progressive taxation of the larger "prizes" in the lottery of enterprise and risk must lower the general enthusiasm. But if the tax is not heavy until the reward is

high, the psychological effect must be small, and salaried managing directors of the best type do not display initiative precisely in proportion to the reward offered. To an even greater extent the effect upon accumulation is psychological. Fortunately, a large section of the total accumulation is never subjected to the individual option to save or spend at all—it is saved impersonally by the directorates of companies, which are much less susceptible to these influences than the individual. If a £17 dividend is reduced to £14 by the tax, and appears to the recipient only as £14 gross, less tax at 6*s.* = £4 4*s.*, net £9 16*s.*, the effect is probably not so bad upon the individual as £17 - £7 4*s.* tax = £9 16*s.* In one case he *sees* a tax of 30 per cent., and, in the other, of 43 per cent., and the latter may discourage him more from saving, although there is exactly the same fund *out of which* to save. Of course it will be said that the alternative £17 - £7 4*s.* is not a true one, for in raising the extra £3 by a corresponding income tax, it would not apply merely to this dividend, but be spread over all classes of dividends and income. In that event the deadening influence against thrift, though less striking in *this* particular case, is more widespread.

XIX. *What will be the Effect upon Industrial Initiative and upon Labour?*

If the tax rises to high rates upon high yields, Labour can be shown that real profiteering is progressively hit the more obviously it becomes profiteering. At the same time business, as distinct from gambling, is not discouraged, for the capitalist knows that he is sure of retaining any reasonable return with little tax burden. Any tax which has any chance at all of pleasing both parties is deserving of serious consideration. If any protectionist measures are adopted, the plea for this tax becomes the stronger, because it serves as a corrective to those special advantages conferred upon individuals which are so often, and rightly, urged against a tariff policy.

XX. *What are the Chief Practical Difficulties?*

Space fails for the practical aspects to be dealt with at length either with regard to the difficulties likely to arise here or to those already found in America. But some of them may be touched upon briefly.

(1) Some businesses need a "loading" to the normal return to provide for special features, such as the wastage of the asset

(mines, etc.), the deferment of the yield (rubber estates), or special risk to capital, and the economic character of this loading is such that it must be included in the return to capital at the margin, otherwise further capital will not enter the industry. This point has been successfully dealt with under the present Excess Profits Duty by the Board of Referees.

(2) When people first hear of this tax their exclamation is frequently: "But what about businesses with small share capital and large reserves?" Of course, no tax of this kind could possibly be based upon share capital, but only upon the total capital actually in a business. If a business has a share capital of £100,000, and open or secret reserves amounting to £200,000, it may make 8 per cent. thereon, or £24,000, but declare dividends of 24 per cent. If the £1 shares stand at £3, a tax on the American plan would not affect them, for the invested capital would be taken as £200,000 and the share capital ignored, as it is ignored in our own Excess Profits Duty. So in the case of shares which stand at a premium reflecting the surplus assets there is therefore no reason why the value should be affected to any greater extent than the general effect of the tax upon shares standing at par. But in the second class of shares which stand at a premium because of the high earning power on the real capital, the shares should in theory be reduced in value, as the tax might be expected to curtail this anticipated distribution yield. No such effect was, in fact, discernible in America—possibly it was offset by other tendencies, or the tax may have been regarded as temporary only at the time of imposition. This difficulty is essentially a transitional one, and can be met, if necessary, by some special temporary provisions.

(3) American experiences show that the tax tends to work out more heavily upon small concerns than large, partly due to the fact that large concerns often fail to realise such a high percentage of profit as successful concerns of more moderate size; this in turn is partly due to the considerable personal element in smaller concerns and also to the fact that the larger concern has often fully capitalised goodwill. But it is also due to the fact that if business A, with £100,000 capital and profit of 10 per cent., amalgamates with business B, having a capital of £100,000 and profit of 30 per cent., the tax on the amalgamated result of 20 per cent. would on a progressive scale be less than the total tax which the two businesses would pay if assessed separately. These considerations lead up to two distinct points of difficulty which must now be referred to.

(4) *Capitalisation of goodwill.*

To prevent escape from the tax in future by capital reconstructions and the progressive capitalisation of goodwill therein does not present much practical difficulty, but the difference of treatment between concerns according to whether they have or have not reconstructed *in the past* is a more serious anomaly, for which there can only be a compromise solution, somewhat on the lines of the computation of capital in the existing tax. This ignores the capitalisation of goodwill where it remains substantially in the original hands, but recognises it where the shareholders in the present company have to an appreciable extent actually paid for it. Or it may be met upon the arbitrary lines adopted in America.

(5) *Personal businesses.*

Those businesses and professions which have but little capital, and therefore return a high percentage of profit due to the existence of personal earnings, cannot be dealt with under the simple American scheme. The scheme provides a minimum of £600 per each business, apart from the capital standard, but clearly such a method affords no satisfactory basis for the taxation of a successful doctor or barrister, or of many types of merchants and agents whose profits compared with capital alone would fall to a great extent into that part of the scale charged at the highest rate. Personal services and brain-power cannot be capitalised in the same way as physical assets to give an accurate quantitative test of a normal standard, and therefore arbitrary, but *generally* fair, standards must be adopted. The American expedient is a flat rate of 20 per cent. on the profits of all businesses that do not require much capital, so far as those profits exceed £1,200 if the business is not incorporated; but one need have little hesitation in saying that more satisfactory expedients are available.

XXI. *Conclusion.*

Formidable as the practical difficulties may appear to be, they are all capable of being met upon broad practical lines, either as adopted in the United States or by special devices suited to our own conditions, and they can hardly be felt to outweigh the economic soundness of the system when a decision upon the competing alternative remedies for our present troubles is necessary.

J. C. STAMP

THE GOLD STANDARD[1]

WHEN we speak of a monetary standard we mean that which regulates the value or purchasing power of the monetary unit. The monetary unit is the unit for the measurement of debts. A debt is an economic relation which requires to be expressed as a number or quantity, and, in order that it may be so expressed, it must be expressed in terms of some unit.

Now the subject matter of debts is wealth. They arise out of transactions in wealth, and are extinguished by transactions in wealth. A sale of goods or a service rendered makes a debtor and a creditor. The debtor can extinguish his obligations, the creditor can satisfy his claims, by another sale of goods or service rendered. Such goods and services are wealth, and have value. The unit for the measurement of debts must be a unit for the measurement of values.

The monetary standard is therefore commonly called, and quite rightly called, the standard of value. But it is a mistake to suppose that it is *merely* a standard of value, no more than a unit for the comparison of different items of wealth. Such a standard of comparison would be in itself something conventional and non-essential, for, so long as the same unit were chosen within the limits of each comparison, it would not matter what the unit might be, or whether different units were used for different comparisons.

Debts, on the other hand, are the very foundation of the economic system, and the existence of a network of debts, calculated in a certain unit, is an important and substantial fact. The true function of the monetary standard is so to regulate the unit in which debts are measured as to maintain the stability of that system. Prices, which measure the value of commodities in terms of the unit, and inversely therefore the value of the unit in terms of commodities, are themselves potential debts. The quotation of a price is an offer, the acceptance of which completes a contract and gives rise to a debt.

The characteristic of the ideal unit for the measurement of debts is that it should have the same meaning when the debt is

[1] Read before Section F of the British Association, Sept. 12, 1919.

discharged as when it is contracted. A merchant orders a consignment of goods from a manufacturer in October to be delivered in January at an agreed price. The merchant must be able to rely on selling the goods through the retailers to the consumers at approximately the prices he anticipated; the manufacturer must be able to rely on producing them at approximately the cost estimated.

An investor pays down a capital sum of £1,000 in exchange for a perpetual annuity of £50. He wants to be able to count on £50 continuing for an indefinite period to represent the same command of wealth as when he made the investment.

A man starts work on Monday under agreement to receive £3 on Saturday. All around him commodities and services are on offer at prices with which he and his employer are both more or less familiar. In order that the bargain may be carried out in fact as well as in name, these commodities and services must be on offer at substantially the same prices on the Saturday as on the Monday.

This last, it may be said, is at any rate a modest enough demand. Prices may vary widely in a lifetime; they may vary materially in three months; surely any variation in a week in the general level of prices must be for practical purposes negligible. But in reality wage agreements are especially a source of difficulty when the monetary standard becomes unreliable. Wages cannot be revised every week; when the purchasing power of the monetary unit varies, they have to be altered at the cost, it may be, of grave friction, whenever the accumulated effect of the variation makes itself felt. Instability of wages means instability of the whole social system.

The seeker after an ideal monetary standard is met at the very outset by a theoretical difficulty. What he wants to secure is that a given debt shall represent, in some sense, an invariable command over wealth. But the relative values of different kinds of wealth are themselves always varying. If the unit represents the same command over one kind of wealth, it will vary in relation to another. Averages and index numbers will give an approximate test of general purchasing power, but at the best will contain an arbitrary element.

The gold standard represents a rough and ready solution of the problem; it fixes the price of one commodity. The monetary unit is equated to a prescribed quantity of the selected commodity. This commodity is a material so durable as to be almost indestructible, and one of which therefore the accumulated stocks are very

large in proportion to the annual fresh supply. Gold tends, therefore, to have a remarkably steady value.

In order to make the gold standard effective, it is ordained that every debt above a certain limit shall be payable, if the creditor wishes, in gold. This system can only work if the debtor, when so required, can readily obtain the necessary quantity of gold. But of course a *solvent* debtor is himself actually or potentially a creditor, and is thus in a position to exercise the same right as his own creditor. If gold is in circulation in the form of coin, people will keep enough of it in hand to meet their liabilities. And with a banking system, of course, the banker makes it his business to supply so much gold as his customers require for their daily business, and keeps a stock in hand for the purpose.

But to maintain an effective gold standard it is not necessary to confine the currency system to gold coin and credits payable in gold. The actual legal medium of payment may be partly or even wholly paper money or over-valued token silver. The monetary unit may none the less be kept at a fixed gold value either by the direct convertibility of the paper or tokens into gold, or by convertibility into foreign credits which are maintained at a fixed gold value, or by a mere limitation of supply so that, though inconvertible. they circulate alongside gold coin, or, theoretically at any rate, by a judicious limitation of supply based on a careful watching of the gold market.

By a combination of these systems the gold standard was in nearly universal operation at the outbreak of war in 1914. Some countries were using unregulated paper; but it was universally recognised that paper money ought to be put on a gold basis as soon as possible. China almost alone adhered to the old silver standard. With these exceptions it was possible everywhere to exchange credits for gold and gold for credits at a fixed price, subject at the most to a fractional commission of almost negligible amount. Thus gold was an international currency.

The gold standard, in fact, gave uniformity to the monetary unit, not only in time, but in space too. A trader could with confidence exchange a credit in his own country, not only for a future credit in the same place, but for a credit, present or future, in almost any other part of the world. In peace time the portability of gold is such that, unless there are legal restrictions on its movement. its value can only differ very slightly in different places at the same time. and its world value remained steady enough from year to year for it to be accepted without reservation as the basis of financial contracts extending far into the future.

This is the system that existed before the war. The war has destroyed it. Under the strain of war finance the Governments of Europe, unable to raise the means of payment by taxation and by genuine loans, have been driven to pay their way with paper money or with bank credits created for the purpose. In each country the plethora of credit and money has caused a fall in the purchasing power of the monetary unit, corresponding to the financial strain. The device of steadying the unit by fixing the price of one commodity has broken down, gold has vanished from circulation, and the interchangeability of credits for gold and gold for credits has for all practical purposes ceased. During the actual continuance of the war there had ceased to be a world market for gold.

The displacement of gold from circulation, along with the suspension of the demand for fresh supplies of gold for currency purposes in Europe, has thrown enormous stocks of gold upon the American market, where alone, except for some neutral countries of secondary importance, gold has continued to be used. The release of these redundant supplies has depressed the value of gold itself in comparison with other commodities. It has in fact enabled America, North and South, to indulge in a currency inflation not much less extravagant than that in, at any rate, the more cautious European States. Now that the war is over, it is in America that the first signs of the re-establishment of a gold market and a gold standard are to be seen. But the American market is still saturated with the excessive supplies sent thither during the war, and the purchasing power of gold remains far below the pre-war level.

This decline in the purchasing power of gold has disclosed a weakness in the gold standard. The stability in the value of gold depends on the accumulated stocks being large in proportion to the annual supply. But just because the stocks are large the quantity in use as currency is large. The demand for gold as currency, by withdrawing this large quantity from other uses, tends to keep the value of gold up. But if a great part of the demand is destroyed by the adoption of paper money in place of gold, the supplies set free are great in proportion to the world's industrial demand, and have to be absorbed as currency in the area in which gold continues to be used for that purpose. The more restricted this area, the more marked will be the effect on the value of gold. At the present time gold prices have fully doubled, or in other words the value of gold in relation to commodities has been halved.

Except in the rapidity with which it has occurred, this phenomenon is not altogether without precedent. In 1873 silver lost the privilege, which it had shared with gold, of free interchangeability with credits. The consequent displacement of silver from use as currency only occurred gradually, but by the time the process was completed the gold value of silver had fallen from 60d. to 22d. an ounce. During the Napoleonic Wars, though the use of paper money was by no means so universal in Europe as it is now, specie prices nevertheless rose 60 per cent. above the pre-war average, and by 1822, when the use of gold and silver was restored, had fallen again to their former level.

Thus, in considering the future monetary standard, we have two distinct problems to deal with. First, throughout Europe, except in Spain, the monetary units are depreciated in varying degrees in comparison with their nominal gold parities. Secondly, gold itself has lost its former stability of value.

Evidently, what we want is to regain a standard which will not vary appreciably either in time or in space. The unit must continue in the future to represent as nearly as may be the same amount of wealth as in the present; the unit of each country must bear a constant proportion to the unit of every other. This condition of things had been secured—not perfectly, but well enough to meet practical requirements—by the gold standard in 1914. Is it to be secured again by a restoration of the gold standard? (Before embarking upon the consideration of this question, let me remark parenthetically that I do not propose to deal with the interesting alternative of a return to bimetallism.)

The currency units of the European belligerents have all been depreciated, some more, some less, below their nominal gold value. To restore them to their nominal gold value, even though this means far less than their pre-war value in terms of commodities, would therefore require a measure of what may be called deflation.

Deflation is the process of restoring the value of a depreciated currency unit, or, more generally, of raising the value of the unit. In currency theory it is fundamental, and much turns on the difficulties which arise in carrying it into effect.

Inflation takes shape in an increase in the aggregate of money incomes. The rise of prices, which is its best recognised characteristic, may be regarded as the consequence of an increase in purchasing power, accompanied by no corresponding increase in the supply of things to be purchased. Deflation is a reversal of this process; it must mean a decrease in the aggregate of money incomes.

The normal instrument of deflation is an increase in the rate of interest on short-period indebtedness. The immediate effect of this measure is to deter traders from holding stocks of commodities with borrowed money. They reduce stocks in two ways. They endeavour to accelerate their sales, and therefore reduce the prices charged to the consumer. They give fewer orders to producers for the replenishment of stocks. The result is a fall of prices, and a diminution of output. And the consequent decline of profits, growth of unemployment and reduction of wages bring about just that decrease in incomes which is required.

Of course where the State is the principal short period debtor this method requires some modification. It is no use the State trying to deter itself from borrowing by allowing its creditors a high rate of interest, and it cannot reduce its indebtedness, as a trader does, by unloading stocks. It must raise money by taxation or by genuine loans, drawn from the savings of the community, and must apply the proceeds not to expenditure but to the cancellation of redundant credits. This is in reality a direct attack on incomes. The money raised by tax and loan represents a diminution of the consumers' spending power, and therefore of the effective demand for commodities and investments.

Deflation then seems practicable enough. But its very effectiveness is an obstacle. Traders and business men have a deadly fear of dear money, and this fear is not to be explained as an exaggerated dislike of paying an extra 2 or 3 per cent. per annum for a period perhaps of much less than a year. It is a dread of the consequences which experience has shown to follow from a diminution of the money income of the country; the depreciation of assets in comparison with liabilities, and the fall of prices, which is perpetually turning a profit into a loss—these are the consequences which assail the prosperity of everyone and threaten the actual solvency of those who trade with borrowed money.

And deflation also inevitably involves a reduction of wages. This is an indispensable condition both of the reduction of cost of production and of the reduction of effective demand. When money wages are too high in proportion to the supply of money, general unemployment supervenes. This unemployment must be cured either by a reduction of wages, or by an increase in the supply of money—in other words, by renewed inflation.

It is hardly necessary to enlarge on the difficulties and dangers of adjusting wages to an unstable monetary unit. We have lately had only too much experience of the process of raising wages every few months to keep pace with a depreciating currency. The con-

trary process of putting down wages in proportion to an appreciating currency is not likely to be less harassing. But if the gold standard is the only practicable means of steadying the value of the monetary unit, these very difficulties are the best argument for returning to it. By facing a period of tribulation we can get back to a sound currency, and shall reap our reward in having a clear future before us. The depreciation of sterling in comparison with American dollars, which are at par with gold, is serious, but is not yet such as to demand an impossible effort to bridge the gap. But England is not alone in having to face this problem. Other European currencies are far more depreciated. This is shown even by the foreign exchanges, and in some cases the effect on the foreign exchanges is largely masked by a drastic restriction of imports. For some countries deflation by the methods just described would be too great a task to attempt.

There are, however, at least two methods of cutting the knot. One is to enact that the depreciated paper money shall pass at something less than its face value in terms of the monetary unit; the other is to fix the value of the monetary unit in gold at something less than the former parity. By either method the monetary unit can at a single stroke be given a legal value in gold. Both methods, however, are open to the imputation that public faith is not kept.

The first method, the reduction of the legal value of the paper money, is not only a breach of faith, in that it disappoints the expectations of those who have received the money at its old value, in many cases from the Government itself. It also concentrates all the burdens of deflation in a single day. If there is any considerable body of trade indebtedness outstanding, the effect on the position of the debtors is so calamitous that the method must be ruled out as impracticable. It can only be faced in a community where trade and credit operations have been reduced to such a low ebb that the outstanding indebtedness is negligible.

The second method, the adoption of a reduced metallic value for the monetary unit, was common in the Middle Ages. With the development of credit it has come to be regarded as illegitimate, in that it inflicts an injustice on creditors and in particular enables the State to lighten the burden of its own debts. But if the State has not the financial strength to restore the monetary unit to its old gold value, this measure may be the only alternative to the continuance of an unsupported paper standard for generation after generation. It is almost certain that some of the nations of Europe will have to resort to it.

Such, then, are the steps by which the gold standard is to be regained. The choice is between a long and painful deflation and an arbitrary manipulation of the currency, which is hardly consistent with the preservation of public good faith.

But we have not yet come to the end of the difficulties in the way. We have already observed that the displacement of vast quantities of gold from circulation in Europe has greatly depressed the world value of gold in relation to commodities. Suppose that in a few years' time the gold standard is restored to practically universal use. If the former currency systems are revived, and with them the old demands for gold, both for circulation in coin and for reserves against note issues, the value of gold in terms of commodities will go up. In proportion as it goes up, the difficulty of regaining or maintaining the gold standard will be accentuated. In other words, if the countries which are striving to recover the gold standard compete with one another for the existing supply of gold, they will drive up the world value of gold, and will find themselves burdened with a much more severe task of deflation than they ever anticipated.

And at the present time the situation is complicated by the portentous burden of the national debts. Except for America and this country, none of the principal participants in the war can see clearly the way to solvency. Even we, with taxation at war level, can only just make ends meet. France, Italy, Germany and Belgium have hardly made a beginning with the solution of their financial problems. The higher the value of the monetary unit in which one of these vast debts is calculated, the greater will be the burden on the taxpayers responsible for it. The effect of inflation in swelling the nominal national income is clearly demonstrated by the British income-tax returns, and by the well-sustained consumption of dutiable commodities notwithstanding enormous increases in the rates of duty. Deflation decreases the money yield of the revenue, while leaving the money burden of the debt undiminished. Deflation also, it is true, diminishes the expenses of Government, and when the debt charges are small in proportion to the rest, it does not greatly increase the national burdens. But now that the debt charge itself is our main preoccupation, we may find the continuance of some degree of inflation a necessary condition of solvency.

Financial strain is indeed the main obstacle to currency reform. During the war it was financial strain that produced inflation. But the emergency measures of the war postponed a part of the financial strain, and, now that we have to balance our

budgets, the problem has become more formidable even than during the war. Suppose that the financial strain in one of these overburdened communities reaches breaking-point, where will this breaking-point be found? What will be its symptoms, and what will be its consequences. The immediate symptom will be a failure to balance the budget; a deficit will appear that cannot be bridged by additions to taxes which are already oppressive and inelastic. Loans which, if successful, would but increase the future burdens, will be under-subscribed, like Necker's loans of 1789. The deficit is covered by the creation of bank credits and the printing of paper money. This is not in itself necessarily fatal. It is a question of degree. It may be that in a few years the monetary unit will find a depreciated level at which solvency becomes again possible, and it can then be linked up with foreign currencies at a new parity. But every abortive attempt at settling the unit is a source of danger. The critical point is reached when people cease to rely on the value of money and of rights to receive money. The Government having tried to establish the value of the monetary unit and having failed, distrust of the unit shows itself in a general desire to get rid of balances of money or credit in exchange for commodities or for gold or for foreign currencies. So the distrust itself accentuates the depreciation, and of course the depreciation accentuates the distrust. It is in such conditions that trade is brought to a standstill by the sheer want of any tolerable medium of exchange. Transactions cannot be carried through, because there is no unit in which debts can be measured. For the last two years we have seen communities starving, not because there was no food, but because the peasants and farmers would not sell food for paper money. In Revolutionary France, when the Constituent Assembly failed to sustain the assignats, producers and traders eventually insisted, despite the law, on being paid in metallic currency. The consequent demand for gold and silver shook the whole credit system of the world. For the moment Eastern Europe seems to have submitted to economic paralysis; no medium of exchange has taken the place of the hopelessly discredited rouble; the mark and the crown are on the verge of collapse. Conceivably some or all of these currencies, instead of being restored to stability, may be cleared away along with all the debts and credits based upon them; and the economic system of Eastern Europe may have to be begun afresh with a metallic medium of exchange drained away from the West.

It cannot therefore be assumed that the failure of some countries to restore a gold standard by currency legislation and

the control of credit will relieve the demand for gold in the rest. It may on the contrary intensify the demand, and this is a danger for which we ought to be prepared.

These problems illustrate that weak point of the gold standard, to which we have already alluded. The value of gold is only steady so long as the demand for it as currency remains substantially unchanged. If we are going to adhere to the gold standard in future, it is most desirable that the absorption of gold for currency purposes should everywhere be kept in control. If all the principal countries of the world settle in the near future what the value of their currency units in gold is to be, we want so to regulate the demand for gold that the value of these currency units in commodities does not vary substantially. To achieve this result it will be necessary to retain the present proportion of gold to credit and paper money taken in the aggregate in all the countries, except so far as the amount of credit and paper money may be reduced by deflation in the interval before the gold standard is established. There will therefore have to be a very great economy in the use of gold as compared with what prevailed before the war. Modern refinements in the regulation of currencies make this possible. By the gold exchange standard, which has become the favourite of currency theorists, it is possible to maintain the monetary unit of a country at par with the unit of a gold-using country, without the former absorbing any gold at all. It is not necessary for the Western European countries to go to this length and dispense with gold altogether, for they have retained gold reserves of substantial amount, though in nothing like the pre-war proportion to their paper circulation. All that is required is that they shall not endeavour to add to their stocks of gold at one another's expense. And this the gold exchange standard makes possible. The principal bank of issue in each country must be willing to offer credits or paper money in exchange for credits or paper money in any other, on terms just favourable enough to compete successfully with the import of gold.

But if this system is well calculated to prevent an excessive demand for gold as currency, it is open to the contrary danger that it may allow an almost indefinite expansion of paper money with a fixed substructure of gold reserves. The only counteracting influence would be the demand for gold in industry, but the value of gold in relation to other commodities will have to fall a long way before the industrial demand is so far stimulated as even to absorb the annual new production from the mines, let alone to make any impression on the vast amount of the world's accumu-

lated reserves. The tendency of credit, if left to itself, to expand indefinitely makes this a very real danger, though the consequences are not so oppressive as those of an undue appreciation of the monetary units. A persistent depreciation of the monetary unit not only upsets the balance between debtor and creditor, but means a corresponding rise in the cost of living and necessitates those perpetual revisions of wages which we have already had occasion to mention.

We seek in fact a middle course. We want to use the gold exchange standard to dispense each country from absorbing gold when it needs additional currency, and at the same time we want to prevent any country from abusing this arrangement to increase its currency circulation unduly. The scientific economist will be tempted to look for a solution in the regulation of currencies by index numbers of prices. Probably something can be done in this direction. The practical legislator would indeed hesitate to define the value of the monetary unit in terms of an index number, and even the scientific economist must admit that there are many practical difficulties in the system, which have not yet been solved. The function of the index number will be rather to give guidance, along with other data, in the administrative control of currency, than to play a part in the mechanical rigidity of a statutory system.

But it will probably be thought dangerous to trust entirely to administrative discretion, and the best form for a legislative regulation of the currency to take is a direct limitation on the quantity of paper money. The limit may be placed either on the proportion of the total issue to the metallic reserve, or on the total uncovered issue. The former system is often recommended on the ground of its elasticity, but this elasticity is a very equivocal advantage, for in proportion as the system facilitates expansion it makes contraction more difficult and dangerous. The maximum uncovered issue is really the more practical and workable plan.

Whatever system is adoped must be the subject of international agreement. If the pitfalls are to be avoided, if the world value of gold is to be stabilised, there will be an arbitrary or conventional factor in the currency problem, which no individual state will be able to evaluate without reference to its neighbours.

The basis of this international agreement will be the establishment by each of the participating States of a currency law calculated to allow so much uncovered paper money as, with the portion covered by gold, will just provide for its needs, with a suitable margin or reserve left over. This margin or reserve (like the banking reserve of the Bank of England), is necessary to allow of

the inevitable casual and seasonal variations. The supply of currency of each country must be, as nearly as may be, such that all the foreign exchanges are at or near their new gold parities. Once this state of equilibrium has been attained it must be preserved by the gold exchange standard.

The gold exchange standard may be applied in more than one way. The usual practice is to offer to buy or sell credits abroad in exchange for credits at home, a reserve of foreign bills or other foreign assets being maintained, to be drawn upon for the purpose. These foreign assets are sometimes counted as the equivalent of a gold reserve for the purposes of the currency law. Clearly this must not be allowed. And if the gold exchange standard is to reproduce as nearly as possible the gold movements that would occur under a simple gold system, what is wanted is not an exchange of credits but an exchange of legal tender money—that is to say, anyone with legal tender money in one country should be able to surrender it in exchange for an equivalent amount of legal tender money in any other country, the amount so surrendered being withdrawn from circulation. In fact, this would mean that any country, party to the agreement, could add to the paper money based in accordance with its currency law on the gold reserve, further issues based on reserves of foreign paper money placed in its hands abroad. These additional issues being equal to the reserves held against them, the aggregate circulation of paper money in the international system would remain unchanged, and would still be limited in accordance with the aggregate gold reserves.

Any country which indulged in inflation, or allowed its currency unit to depreciate, would find more and more of its paper money locked up in the exchange reserves and withdrawn from circulation. This would operate like the export of gold.

If legal tender money were the sole means of payment the system would work automatically. The mere scarcity of currency would itself restrict purchases and bring about a reduction of prices. But the principal means of payment in modern business is credit. Credit is only transformed into legal tender money for the payment of wages and for the smaller transactions. A scarcity of legal tender money does not affect prices until it has reacted on credit. As the possessor of a bank credit is free to draw as much of it as he pleases in cash, the first impact of the scarcity is felt entirely by the banks and not at all by the public. This is a signal to the banks to contract credits, and its effectiveness depends on their responding to the signal.

To rely exclusively on a regulation of the legal tender currency is therefore fallacious. Far from solving the problem of controlling the currency, it merely passes on to the bankers the burden of solving it.

And that is the reason for proposing, besides the limitation of uncovered paper money and the gold exchange standard, the use of an index number of prices in the administrative control of currency. If we rely on the limitation of paper money, and the bankers do not succeed in keeping control of credit, the inevitable result will be that, when the bank reserves in some or all countries threaten to melt away to nothing, the limitation of paper money will be suspended.

Credit has an inherent tendency to expand, and the problem of controlling it reduces itself in practice to curbing this tendency in time to prevent undue depreciation of the monetary unit. Essentially depreciation means a rise in the average level of prices, and therefore the index number of prices affords the most direct measure of the movements to be counteracted. And what is more important still, the rise of prices *precedes* the drain of legal tender money into circulation. It will be the function of the principal banks of issue of the associated States to watch the index of world prices, and to put the brake on by raising the rate of interest as soon as a material rise is recorded. But this must not be done without discrimination. On the one hand a rise of prices may be due not to credit expansion but to a scarcity of one or two important commodities. On the other, an incipient expansion of credit may take effect not in a rise of prices but in an increased volume of purchases. The banking authorities must take into account not only the statistical data, such as the index numbers, but also all that they can learn of the state of business from their relations with traders.

Regulating credit, in fact, is an exceedingly delicate operation. How, then, it may be asked, can we hope to arrive at a system of international control? Most of the countries co-operating will be subjected for many years to come to prodigious financial burdens. The power of inflating credit or over-issuing paper money is intimately connected with Government finance, and in the last resort may afford the only alternative to an act of bankruptcy. A Government will not definitely divest itself of this power, nor, if it did, could its undertaking be in all circumstances observed. Are we to expect the development of a delicately balanced international mechanism from a crowd of distracted financiers, each preoccupied with the desperate embarrassments of his country

and ready to clutch at any expedient to gain a few months' respite from his troubles? Or are we first going to assume that all the real difficulties of the situation have been surmounted, and then tell the world what sort of currency system will be best for it?

The answer is that in practice the effectiveness of an international system would not absolutely depend on its universality. The very moment British currency is re-established on a gold basis, and sterling and dollars are at par, a beginning can be made. The United Kingdom and the United States, together with a number of minor powers, which have acquired large gold reserves and considerable financial strength during the war, could start the system. An Anglo-American combination would command so large a proportion of the world's stock of gold that it would be almost sufficient by itself. The mere existence of so important a currency system on a stable basis would lead other countries to regulate their own monetary units by it, even though they never bound themselves by any agreement. When a collapse of credit precipitates an intense demand for a metallic currency, that is because there is no other medium of payment that people will trust or recognise. If there is a foreign credit system, which can be made the basis of a new currency, it will be easier to utilise this through an exchange system than to import gold.

Again, leaving aside the danger of an actual currency collapse, the financially weaker countries have less power of attracting gold. If the financially strong are in the combination, then, however great the gold hunger of the remainder may be, its effect on the world value of gold will be relatively moderate. Nor are the financially weaker countries likely to let loose their stocks of gold to flood the market. Indeed, except in the case of France, the gold holdings of these countries are hardly great enough to flood the market, and France is always intensely reluctant to part with gold.

In reality, therefore, we can arrive at a fairly satisfactory practical solution of our currency problems as soon as we can reach an arrangement between England and America, with a view to maintaining their aggregate uncovered paper issues as nearly as possible at a fixed amount, to providing for remittances between them on a gold exchange basis, and to controlling credit with a view to keeping the gold value of commodities, as measured by an index number, approximately constant. The third of these conditions is the most novel, but, if it could be carried into effect, would be the most useful. It might not be consistent with the first, but where they differ it would, at any rate in theory, be the more

correct guide to follow, and the paper currency law could be adjusted from time to time as might be necessary.

The purpose of such a system would be not merely to restore the gold standard, but to make it a more trustworthy standard than it has been in the past. The demand for gold as currency would, in fact, be so regulated as to make the value of a gold unit itself in commodities as nearly as possible constant.

R. G. HAWTREY

MARSHALL'S "INDUSTRY AND TRADE"

Industry and Trade. By ALFRED MARSHALL. (Macmillan and Co. Pp. xxiv + 875.)

THE appearance of Dr. Marshall's long-expected volume is, for economists, a very important event. The immense range which the book covers, no less than the author's unrivalled mastery of his subject, makes it impossible for any one man to attempt a systematic and comprehensive review of it. The comparative history of many countries, the detailed technique of many industries, elaborate realistic analysis, are all welded together into an ordered whole. For an adequate appraisal of the result we must await the arrival of an economist of a calibre equal to the author's. The most that can be attempted here is some sort of rough inventory of this rich mine of knowledge.

The first of the three books into which the volume is divided is devoted, after a brief but illuminating analysis of "some general relations between trade and industry," to an historical account of the forms of industrial leadership enjoyed by Great Britain, France, Germany and the United States. The keynote is set in the following passage: "National industries and national trade act and react on one another, but the dominant force is that of industry. The main courses of trade are governed by the relations between the surrounding industries, in the same way as watercourses are governed by the contours of the hills. . . . But the water reacts on the hills and trade reacts on industry; the industrial history of any country would have been different if her opportunities for foreign trade had been different" (p. 4). The chapters that follow have, Dr. Marshall writes, "no claim whatever to be a contribution to economic history; but an endeavour has been made to turn a few hints derived from the past to account in explaining the present" (*Preface*, p. vi). This is a matter for historians to debate. But the view may be hazarded that the depreciation of these long, careful and suggestive chapters (and the appendices associated with them), which this sentence implies, will not commend itself to them. Dr. Marshall

has traced out and set in order, over a very wide field, the salient causes that lie behind the industrial movement of Europe and America. He has not written history in the sense that authors of monographs understand it. But in another and not less important sense he has written it. For he has *used* great masses of historical material, provided in the main by workers of a different kind, to *compare* the development of leading nations, and to signalise, among the multitude of facts, the over-ruling forces of geographical relations, national character and industrial technique. Appendices B to G contain historical inquiries of a more detailed character, which Dr. Marshall decided to preserve, though he did not consider them sufficiently germane to his main purpose to be embodied in the text.

Book II. is entitled "Dominant Tendencies of Business Organisation." It is concerned with the present form and probable future tendencies of the methods of massive production and the large scale of representative businesses, the development of which was sketched in Book I. After an introductory first chapter, Chapter II. deals with the debts of industrial technique to systematic record and to standardisation. "Custom standardises unconsciously and crudely processes and products alike. The modern science of industrial technique deliberately standardises some products and many processes, and deliberately leaves many products and some processes open to varying tastes and humours, to fluctuating needs and to the caprices of fashion. . . . A standard may be *Particular* to an individual producer, or it may be *General* to the greater part of an industry, or even the whole western world" (p. 201). Standardisation in both these senses has been helped forward by "the great architectonic principle" that a well-driven machine tool can become the parent of new machine work more exact than itself, and so on cumulatively. After a discussion of these matters, illustrated by much interesting detail, Dr. Marshall proceeds in the next two chapters to display some of the principal causes that influence the size of the representative business unit, particularly in the steel and textile industries. Of the steel industries it is remarked: "There is no other group of industries in which the higher and lower stages work for one another so steadily and on so large a scale; and therefore there is no other group in which large lateral extensions and amalgamations are so likely to be accompanied by large vertical extensions and amalgamations. Iron and coal mines at the 'lowest' stage are large users of the rails and the machinery which come from the higher stages; the smelting furnaces receive

from the mines at the lowest stage, and pass on their products to the heavy mills, which, like all the rest, are large consumers of high-class machinery. There is nothing at all analogous to this in any other group of industries" (p.219). There are some suggestive observations on the effect of standardisation on the contest between giant businesses and those of moderate size, and also upon the practice of making for stock. Illustrations drawn from the cutlery, bicycle-making, dressmaking and building trades are used to show that "the large business, itself increasingly given to semi-automatic work on standardised products, is often indirectly aiding businesses in which routine has but a secondary place; and in some directions it promotes new openings through which a man of small means but large energy may work his way up to become a leader of industry" (p. 246). In sum, "the considerations submitted in this and the two preceding chapters seem to point to two conclusions. The first is that future advances of technique on broad lines are likely to need the aid of capital on an ever increasing scale. The second is that much may still be done with moderate means by a resolute man who is content to concentrate his strength on a narrow field of work so long as his means are but scanty" (p. 242).

The next three chapters (V., VI., and VII.) deal with speculation and marketing. Speculation is analysed into three varieties: mere gambling, shrewd business ventures whose gains must be balanced by equivalent losses to other traders, and "constructive" speculation that tends to improve the general application of efforts to the attainment of desirable ends (p. 252). This last does good service by so distributing inherent business risks that they fall increasingly on the shoulders best fitted to bear them. The social utility of the power to sell futures, when employed by able and honest men, is brought out by an instructive reference to the land boom of 1887–90 in Melbourne (p. 265). At the same time, of course, the abuses, to which this and other forms of speculation are liable, are fully recognised. The second of the chapters on marketing contains an analogous discussion of the good and evil of various forms of advertisement, the distinction between those which are mainly "constructive" and those which are mainly "combative" being worked out and illustrated. In this discussion there is the subtle observation: "A second element of social waste, caused by bold displayed advertisements, is the relative obscurity into which they are designed to throw, and do throw, the smaller advertisements of less wealthy men, some of whom may have high constructive faculty" (p. 307).

The remaining five chapters of Book II. discuss business organisation under four principal heads: the growth and influence of joint stock companies; the financial basis of business organisation; its tasks and requirements of faculty; and applications of scientific method. They include a balanced discussion of the relations of banks to industry and trade in Germany and America and a hopeful view of the possibilities of the British Trade Corporation; a discussion of the education of business faculty, in which a caution is entered to teachers against the mere imparting of information, "much of which even tends to hinder the movements of faculty by clogging it with inert matter" (p. 356); and a careful study of "scientific management." These chapters, which occupy eighty-five pages, well illustrate Dr. Marshall's method of searching critical description.

Book III. is entitled "Monopolistic Tendencies: Their Relations to Public Well-being." The first two chapters analyse the general problem of value in relation to monopoly. It is pointed out, however, that, "though monopoly and free competition are ideally wide apart, yet in practice they shade into one another by imperceptible degrees; that there is an element of monopoly in nearly all competitive business; and that nearly all monopolies, that are of any practical importance in the present age, hold much of their power by an uncertain tenure; so that they would lose it ere long, if they ignored the possibility of competition, direct and indirect" (p. 397). Absolute monopolies are of little importance in modern business as compared with those which are "conditional" or "provisional." Consequently, in the main body of the book, railway and other problems are treated for the most part as being concerned with conditional monopoly, and mathematical methods, which are more fitted for the analysis of pure, or absolute, monopolies, are not overtly employed.

Chapters III. to VI. are headed "Competition and Monopoly in Transport." Transport by road, water and rail are all studied, and there is even reference to the possible advent of a "helicopter" for carrying passengers, which should be able to rise from, and descend to, a small private garden by vertical movement. There is a full discussion of shipping rebates and railway discriminations, in which stress is laid on the need of distinguishing among essentially different policies that are covered by the same name. "Some discriminations are paternal sacrifices for the benefit of weak industries, from which the railways hope to reap their reward in due time. Some are strategical movements for the capture of traffic, which otherwise would not come to

them; and these occasionally have in the background an evil purpose of destroying competitive routes, in order to strengthen the monopoly. And these evil motives for discrimination are not only subtly disguised, they are apt to be interwoven with others that command respect" (p. 481). In view of these complications, direct legislation is an impracticable remedy, and the Government, to act effectively, must act through permanent commissions. There are many objections to the nationalisation of railways. But on the other side is "the reflection that organised co-operation of traffic by railway, canal and improved road might be easier and more effective if the railways (with their plant), together with roads and canal routes, were in a single hand"—and this hand could hardly be other than the State's (p. 505).

From transport we pass to Trusts and Kartels in America and Germany, and to "aggregation, federation and co-operation in Britain's industry and trade." On American experience Dr. Marshall makes the important general statement: "One rule alone is almost universal. It is that each great industrial trust has owed its origin to the exceptional business genius of its founders. In some cases the genius was mainly constructive; in others it was largely strategic and incidentally destructive, sometimes even dishonest. But in general there seems to have been present a notable power of visualising the future. . . . The founders of great trusts have been eminent, even among able business men, for their power of anticipating future relations between productive resources and market requirements" (p. 515). He holds, for a variety of reasons, that "an aggregation so powerful as to be a representative 'trust' in the present use of the term, is likely to be under no great temptation to have recourse to those exceptionally cruel and malign forms of competition, which have frequently been used by a business on its way to obtaining the dominant position in an industry" (p. 527). This is illustrated by the recent history of the United States Steel Corporation. Nevertheless, there are grave dangers to be met; and "the central fact emerging from American experience is that investigations in regard to anti-social policies of Trusts and Kartels can be efficiently made only by a strong staff of men who give their whole time to the work" (p. 543). German Kartels are of a different character from American trusts. "The steadfastness, patience and amenity to discipline of the Germans inclined them to seek the sheltered haven of a cartel, in spite of the partial loss of freedom and the troublous negotiations involved in it" (p. 546). This movement, its bearing on the relation between "mixed" and

"pure" firms, and the general problem of cartel export bounties are submitted to a careful realistic study. The conclusion is: Germany "has not yet learnt that, though monopolistic powers in certain directions are necessary results of modern conditions, they are apt to cause great evils unless controlled; while, for obtaining effective control, even autocratic power is of little use, unless based on organised, long-continued, authoritative studies" (p. 576).

In turning to apply these foreign experiences to Britain, Dr. Marshall focuses attention on "constructive co-operation." This is exemplified by "agreements as to standardisation, which will enable firms of moderate size to specialise on the production in vast quantities of particular component parts of machines in large use" (p. 592); by "associated action in regard to the application of science to industry" (p. 608); and by "associations of producers for organising the direct sale of their goods through their agents" (p. 612). These discussions of the inter-relations between the fortunes of particular sections of industry and the well-being of the whole community lead on to a final chapter, entitled "The Decline of Exclusive Class Advantages in Industry," and dealing with "the semi-monopolistic advantages which the upper strata of industry have always possessed over the lower."

In the course of this long volume, though polemic is scrupulously avoided, there are many weighty and interesting judgments on current issues. Thus: "I see on all sides marvellous developments of working-class faculty; and, partly in consequence, a broader and firmer foundation for socialistic schemes than existed when Mill wrote. But no socialistic scheme, yet advanced, seems to make adequate provision for the maintenance of high enterprise and individual strength of character; nor to promise a sufficiently rapid increase in the business plant and other material implements of production, to enable the real incomes of the manual labour classes to continue to increase as fast as they have done in the recent past, even if the total income of the country be shared equally by all" (*Preface*, p. viii). Again: "Nature's opportunities cannot long retain their present large generosity; for the world is small. Science may indeed enable a fairly vigorous life to be maintained in tropical regions, which have hitherto proved fatal to high energies; but, ere very many generations have passed, the limitation of agricultural and mineral resources must press heavily on the population of the world, even though its rate of increase should receive a considerable check" (p. 2). Again: "Mendelians do not claim to know what causes

originate differences between elementary germs; it seems to be certain that changes in the mental and moral habits of a human being are reflected in his face; and Mendelian arithmetic has little direct bearing on the question whether the nutrition supplied to germs in the body of a person excessively addicted to drink or other sensual indulgences may not result in the birth of a child with less firm character than it would have had if the parent had lived soberly and chastely" (p. 164). Again: "The chief successes of the medical treatment of bodily ailments have been achieved by measures which tend to give free play to the remedial forces of Nature. The chief of the remedial forces of Nature in regard to human action is knowledge; and nearly all beneficial intervention of authority in social troubles begins with the acquirement and publication, voluntarily or under compulsion, of information, which some of those interested in the conflict are not likely to offer spontaneously" (p. 442). Again: "A chief cause of the great recent extension of the area of uncertainty in economic discussions is to be found in that growing volume of responsible doubt as to the general sufficiency of the existing social order for the requirements of man's nature" (p. 658). Again: "The substitution of repetition work in massive standardised production, even though it be true to a thousandth part of an inch, is not an advance, from the human point of view, over skilled handicraft; it increases man's power over matter, but it may diminish his power over himself" (p. 683). Finally—and this is a word directed to economists: "There is a special difficulty in social studies. No one can have first-hand knowledge of any considerable part of the conditions and other facts relevant to any issue. Therefore the first duty of every student is to be diffident; and his second is to shun controversy" (p. 663).

With this my inventory must close. I have not attempted any sort of critique of Dr. Marshall's work. That task, even if one were competent to undertake it, would need to be the work of repeated readings and prolonged reflection, not of the brief and hurried period which alone is now allowed me. I have been content to indicate, as far as possible by the use of the author's own words, the general scope, character and purpose of his book. In the preface we are promised a companion volume, which is to be occupied with influences on the conditions of man's life and work exerted by "the resources available for employment, by money and credit, by international trade, and by social endeavour." For this all students of economics will wait eagerly, their desire whetted by the large instalment they have now received. For

Industry and Trade, following, after so many years, *The Principles of Economics*, is more than a mine of learning and an engine of power. It is also the symbol and fruit of a life spent in single-eyed devotion to a high intellectual aim; a victory of will over obstacles and handicaps; an example, for all workers, of dauntless resolution and loyal search for truth. It is a privilege, in the pages of THE ECONOMIC JOURNAL, to offer to Dr. Marshall, on behalf, as I feel sure I may, of all British economists, a tribute of congratulation and of thanks on the successful completion of this stage of his great course.

A. C. PIGOU

THE RAILWAY STRIKE

It was on Tuesday, September 23rd, that the public received, through a statement issued by Mr. J. H. Thomas to the Press, their first intimation that "once again there is trouble in the railway world," and that matters were "rapidly approaching a crisis." The strike commenced at midnight on the Friday. It was settled on the Sunday week; and within two or three days the railways had resumed their normal services. So far as the public was concerned, the whole dispute was the affair of a fortnight.

In these circumstances it was only to be expected that public attention should be concentrated mainly on one aspect of the dispute, the strategic aspect—the trial of strength between the railwaymen and the Government. For years the menace of just such a sudden stoppage of essential services had overhung our economic life. A steady stream of vague but formidable threats had flowed from certain extreme but not uninfluential Labour quarters. Much talk of direct action, of lightning strikes and of general strikes indicated clearly two things: a sense of enormous power and no undue reluctance to make use of it, the two essential elements of a bellicose state of mind. And, though this attitude was confined to men of extreme views, this served only to strengthen the natural association between the ideas of extreme measures and unreasonable aims. When, therefore, the National Union of Railwaymen, one of the parties to the Triple Alliance, in fact declared a lightning strike, the public responded as to a long-deferred challenge. The phraseology and ideas of war-time lay threateningly near to hand; and one of the first maxims of a state of war is that the merits of the dispute have only a secondary importance. Such interest as was spared for the points at issue was easily satisfied by the one clear fact that emerged from the tangled story of the negotiations. The case put forward by the railwaymen was that they were threatened with a reduction of wages, but at no stage, not even in Sir Auckland Geddes' "definitive offer," was a proposal made to them which could possibly have involved a reduction of wages before the end of the year,

while, before the strike actually took place, the possibility of a reduction had been postponed to a much later date. There was thus, on the face of it, no necessity for a strike practically without notice. And this much is certain, that the railwaymen would not have struck so suddenly had not the advocates of the lightning method been strong among them. No justification of their action is possible which does not proceed from the initial assumption that those who believe (or did believe) in lightning methods, and are by no means averse to a fight, are strong enough in almost every industry to precipitate a conflict whenever a sufficiently unreasonable proposal is put forward from the other side; and that this must be simply accepted as a fundamental fact of the industrial situation, in regard to which all sentiments of moral indignation are out of place. This is, indeed, the only proper standpoint from which to judge the actions of the Government, or, for that matter, perhaps, of Mr. J. H. Thomas. It could not be expected to prevail with the public in taking sides when the conflict was joined.

It is worth while to say this much of the public psychology in order to appreciate in its true proportions one of the most important, and perhaps the most ominous, of the features of the dispute. The "public" which rallied to the Government was something more than the middle and well-to-do classes, but these classes predominated, and they were almost solid. On the other side were arrayed less heartily, but, as the event might easily have proved, not much less unitedly the forces of organised labour. The cleavage of sympathy thus followed the lines of class more closely than in any previous big issue, and we have never been so near developments of which a "class-war" would have been the only adequate description. This situation would hardly have arisen but for the sudden character of the dispute. For in few matters does the mental outlook of the wage-earning class differ so subtly and profoundly from that of other classes as in the degree of tolerance extended to precipitate action.

As an experiment in aggressive lightning tactics the strike was a signal failure. There was considerable inconvenience, there was no paralysis of industry, and no shortage of the necessaries of life. The arrangements which had been prepared for the transport of essential foodstuffs by motor-lorry worked smoothly almost from the first; and, in particular, the supply of milk in the large towns (which was the chief matter of anxiety) was normal after the first two or three days. Before the strike ended the authorities had succeeded in improvising a passenger service

on the railways on a considerable scale. There are no data for estimating the cost to the community of these arrangements. Of the indirect costs of the strike, perhaps the most serious was the loss of rather more than one and a half million tons of coal. The official unemployment roll of 375,000 workpeople affords some indication of the effect upon industry in general, though to this must be added an undetermined amount of short time. Fortune certainly favoured the Government, and bad weather might have made an immense difference to the effectiveness of the motor-transport organisation; but bad weather would not have increased the advantage of striking suddenly rather than after due notice. Moreover, the event seemed to show that the advocates of the lightning method had undervalued its disadvantages almost as much as they had overvalued its advantages. That it must tend to alienate public opinion had never been disputed, but there had been a disposition to reckon this a factor of very small importance. Upon such an estimation the propagandist activities of the N.U.R. provide the best commentary. For they thought it worth while, at a time when their funds were peculiarly precious, to spend what must have been considerable sums in competing with the Government for the advertisement columns of the Press for the statement of their case. The only arguments in favour of lightning tactics which the recent dispute has left standing are those of a negative order. A period of notice would have enabled the authorities to bring persuasive influences to bear upon the waverers; and the railwaymen might, therefore, not have acted with the degree of unity they in fact displayed. But such considerations, inspired by fear rather than hope, can never be the foundation of a successful lightning policy. What happened is, of course, no test of what would have happened if the strike had been prolonged and had assumed the character of a "fight to the finish." Industry was sustained for the time being by its stock of coal and materials; and there was no sign that the Government's transport arrangements could have coped with the problem of replenishing this stock. As for the weapon of the general strike, the most that was demonstrated—though that is much—was that it is a weapon which will never in this country and in our time be lightly or irresponsibly employed.

On turning to the points at issue one is confronted at the outset by an astounding paradox. Prices are rising, and all the signs are that they will rise still further in the immediate future. Probably the most hopeful view (for his time) which any sensible person permits himself seriously to entertain is that prices will

be stabilised before very long at a level not greatly in excess of the present level. Yet the whole dispute was conducted in terms of what should happen when prices fall. The great point of the railwaymen was that they were threatened with a reduction of wages; and in this they persisted in face of a guarantee that no reduction would take place before the cost of living had fallen for three consecutive months. The Government for their part published broadcast in the newspapers, in the biggest type, as the culminating proof of their generosity, the assurance that their offer would "give every grade twice as much as it got before the war, *even when the cost of living gets back to pre-war prices.*" The bald "when" without so much as a saving "if." It would have been as practical a consideration to have pointed out that the platelayer will become a substantial man of property "when the cost of living gets back" to the prices of 1500 A.D. It cannot be supposed that either the Government or the railwaymen seriously cherished the illusion that the first of these contingencies is much more probable than the second. But from this it follows that the real issues of the dispute must have been entirely different from the apparent issues; and it becomes necessary to read with care and insight the story of the negotiations.

Before the war, largely owing to the fact that the railways were the property of different companies, there were considerable differences between the wages paid to men of the same grade and performing essentially the same work. During the war all railway workers received additional pay in the form of successive war bonuses, uniform in amount throughout the service, and totalling eventually 33*s*. per week. The inequalities of pay between men of the same grade were thus maintained; while the higher-paid grades received a smaller percentage advance than the lower-paid. In the early months of this year the railwaymen presented to the Government, among other demands, the demand for "standardisation," and it is at this point that the story of the negotiations really begins. The demand for standardisation involved three principles, which it is important to distinguish: (1) the removal of the inequalities between men of the same grade, the principle of standardisation proper; (2) the continuance of the war bonus as part of the permanent wage; (3) the levelling-up of the wages for each grade to the highest wage received by any member of the grade. The first of these principles the Government accepted readily enough. It was, in fact, common ground. The inequalities were admittedly exacerbating and indefensible. The Government declined to accept the second principle, and, in declining

this, they automatically ruled out the third. Now it is essential to note that the question of the permanency of the war wage stood in March in a very different light to that in which it stood in September. Prices were actually falling at the time; it seemed reasonable to assume—it was in fact the general expectation—that they would fall still further. If this were to happen, the demand of the railwaymen for the permanent enjoyment of their war bonus was a demand that they should become really better off. This was not on the fact of it an outrageous claim; but obviously there was room for compromise. For if prices fell greatly, wages might be reduced less, and the railwaymen would still be somewhat better off. Much would turn on the extent of the reduction contemplated by the Government, and this was not a matter which could not be settled in a hurry. Accordingly, after the familiar crisis, a compromise was agreed to. The Government accepted the principle of standardisation, guaranteed that no railwaymen would suffer a reduction of wages before the end of the year, and promised to negotiate in the meantime as to what the standard rates should be. But, in accepting this compromise, the railwaymen's leaders had put their hands to an agreement declaring that "this would involve a transfer of part of the war wage to the permanent wage." And, as the Prime Minister was quick to point out in the September conferences, this implied that part of the war wage would not be made permanent.

Before the subsequent negotiations had reached a definite stage, the tide of prices had turned, and their prevailing tendency to move upwards instead of downwards had revealed itself with an unhappy clearness. Thereby the character of the railwaymen's claim with regard to the war wage was entirely transformed. It ceased to be a demand for improved conditions, upon which they might fairly be expected to give and take. It became a demand for the maintenance of existing conditions, a demand of obvious justice and common sense. There remained, as open to serious question, only the third principle of the standardisation claim. To level up to the highest wage in each grade would mean an advance of wages (at any rate of money wages) for most railwaymen. And, though the Government might be expected to concede *some* levelling-up (for had not Mr. Bonar Law admitted that everyone realised that standardisation must mean standardisation upwards?), a levelling-up to the very top was, in the case of some grades, an extreme claim. Here they might still be expected to give and take. But standardisation at a lower level than the highest would mean asking some men to accept lower wages in

the new year, obviously an awkward question, the prospect of which was, for the railwaymen's leaders, reason enough for anxiety. No such difficulty occurred, however, over the standards for the engine-drivers and firemen, whose case was dealt with first. For in their case the Government (though they maintained later that this was a pure coincidence) made an offer which embodied precisely the three points in the railwaymen's claim. The highest combined wage received by any driver, and the highest received by any fireman, were made the standard rates for these grades, although, according to Mr. Thomas's statement at the Downing Street conferences, less than 3 per cent. of the drivers, and less than 2 per cent. of the firemen, had been previously receiving these wages. The railwaymen later treated this as evidence of their contention that the Government (or a certain section of it) intended to provoke a conflict, and sought in this way to impair the railwaymen's unity. But this interpretation is at least not required by the facts. For the N.U.R., though they never asked for the application of a more favourable principle to the locomotive men, had at least pressed their claims with special emphasis on the grounds that, being the best-paid grades, they had secured the smallest proportionate advance of wages during the war. None the less, this full concession increased greatly the awkwardness of any prospective compromise over the other grades. The locomotive men at once received their new standards, which meant for almost all of them an increase of pay. The hopes of the platelayer in receipt of 51*s.* per week that he would shortly be levelled up to the platelayer receiving 54*s.* or more were stimulated. He became impatient of further delay; and it was now clear that both his disappointment, if his full hopes were not realised, and the resentment of the best-paid platelayer if his wages were to be reduced in the new year would raise difficulties which it would require all Mr. Thomas's diplomacy to smooth over. With such problems in mind the N.U.R. executive pressed for a speeding-up of the negotiations, and asked for a final offer covering the remaining grades. It is clear that it must have come to them as a complete shock when the Government, in response to this request, submitted standards some 20 per cent. below the current wages for the remaining grades. This was the "definitive offer"; it contained no word of the possible continuance of any part of the war bonus after the end of the year. The decision to strike was promptly taken. It was then publicly announced on the Government's behalf that the fixing of the standards was not intended to prejudge the question of the con-

tinuance of part of the war bonus after the end of the year, upon which there was ample time to negotiate as a separate matter. At the Downing Street conferences which followed the Government offered the guarantee, which bore so fair an appearance, that no railwaymen would suffer a reduction of wages until the end of the following March in any case, or, subsequently, until the cost of living had fallen for three consecutive months below a certain figure. The railwaymen were firmly convinced that this promise was an afterthought, and that the Government originally intended a reduction of wages independently of the cost of living as the first move in an attempt to lower wages throughout industry. This must remain essentially a matter of speculation, but its plausibility can only be estimated in the light of an examination of the nature of the Government's final proposal.

This meant in effect the repudiation of the first and fundamental principle of standardisation, which had throughout been common ground between the two parties. One platelayer would still receive 51*s*. and another 54*s*., although they would have whatever satisfaction they could derive from the fact that they were now receiving varying war bonuses on the top of a uniform basic wage, instead of *vice versâ*. The standards would thus remain of purely academic interest until such time as the cost of living had fallen sufficiently to justify a reduction of wages from 51*s*. to 40*s*. At the lowest this would require a fall in prices of some 20 per cent. on the present level, or some 50 per cent. reckoned on the prewar level, while a bigger fall than this would be necessary if, as was somewhat vaguely indicated, the Government intended that wages should not fall as much as the cost of living. This would be, even on the rosiest view of the future course of prices, a preposterous Greek Kalends to which to relegate the question of standardisation; and, as the Government cannot be supposed to have wished to make nonsense of the principle of standardisation, this lends much substance to the railwaymen's conviction that a reduction of wages was originally intended. What is more certain is that the Government's final offer on the eve of the strike was inherently unsatisfactory, since the inequalities of pay were a considerable and legitimate grievance, the removal of which the railwaymen could not be expected to forgo indefinitely. For this reason the most important clause of the ultimate settlement was that declaring that "negotiations shall be continued with the understanding that they will be completed before December 31st, 1919," which can only mean a reconsideration of the standard rates.

In the meantime the strike has done much to render difficult what is fast becoming the only rational solution of the whole problem. Prices are approaching, if they have not already reached, the point when the railwaymen's claim to a "levelling up" passes, like the others, from the domain of legitimate controversy to that of simple justice. For it becomes the fairest method of granting the further advance of wages required to keep pace with the cost of living. But to grant the railwaymen's full demands is politically impossible for a Government which has lately fought on the issue, and fought with some measure of success. It would be possible for them to retain their standards, but add to them a uniform bonus calculated for each grade so as to yield a total wage which would mean in effect a "levelling up." And, though the railwaymen in their turn could hardly accept this, it is not improbable that a compromise will be found in a levelled-up total wage, composed of a somewhat higher standard and a somewhat lower bonus. But such a solution would be not only absurd in form, being based on an unreal hypothesis, but would be liable to produce materially mischievous results, because of its inevitable reactions on the similar war-bonus question in other industries. The possibility of securing lower prices, or, for that matter, of checking the increase of prices, depends upon increased output; and increased output depends largely on the will of the workers. In these circumstances it is bad policy from any point of view to make the workers believe that lower prices will not really benefit them, may indeed materially injure them, unless they are prepared to trust implicitly in the fluctuations of a necessarily somewhat imperfect index-number, which already, they believe, underestimates the increased cost of living, as they know it from experience. There must be few competent observers who can doubt that the war bonuses will continue throughout industry for an indefinite period ahead. It is high time that the principle of their permanence was openly accepted.

A word must be added on a matter which has been the subject of much discussion. In all disputes the function of mediation is of inestimable importance. For lack of a mediator of sufficient standing to command attention, a dispute may drag on for long after a settlement is possible. We are accustomed to look to the Government to fulfil this *rôle* in big industrial disputes. But in this instance they were one of the parties concerned; and the essential office of mediator was left vacant until it was filled by an odd turn of events but with entire success by the leaders of the Transport Workers' Federation. This has been used as an

argument against the policy of Nationalisation; but the difficulty is inherent in the vital character of the railway service. The railways are not, it so happens, under national ownership at the present time, and no conceivable modification of the present control can alter the fact that the Government, so long as it remains the rate-fixing or rate-controlling authority, is the effective regulator of wages. Nor can an attempt to conceal their responsibility serve except to irritate, as evasions always do. Moreover, when a stoppage occurs on the railways, the Government is driven by its obligations to the community to play the *rôle* of strike-breaker. The idea that Governments can in these days maintain an attitude of detachment and impartiality to disputes touching the vital public services is a chimera, as the action of the United States Government in the dispute in the (privately-owned) coalfields well shows. We should draw a more profitable moral from our experience if, instead of seeking a form of administration which may enable our Government to pose unconvincingly as an impartial mediator in the event of a stoppage, we concentrated on securing one under which stoppages are less likely to occur.

H. D. HENDERSON

A Historical Review of the Economic Conditions of the British Empire from the Peace of Paris in 1815 *to the Declaration of War in* 1914 *based on the Parliamentary Debates.* Edited by WILLIAM PAGE, F.S.A., with a Preface by SIR WILLIAM ASHLEY. (Constable. Vol. I. Pp. xv+492. Vol. II. Statistical Tables. Pp. 237.)

THE nineteenth century is full of economic achievement in which Great Britain took the lead. It is characteristic of the English self-depreciatory attitude that this country, the great pioneer in the new mechanism, finance, trade and transport, should have produced hitherto no first-rate history of her work, and that nothing existed up to the last few months[1] which showed how and why she was the dominant world Power during that period. Yet she trained engineers for the world, she built railways, ships and bridges for the world, she made machines for the world, she wove cloth for the world, and she financed the undeveloped countries. Although she was the greatest of all the colonial Powers in the nineteenth century, there exists no book which describes how she dealt with the huge land areas at her disposal, no history gives in detail the methods by which the English-speaking race was transferred to three new continents, no book explains the clash which has arisen when transport developed so that the coloured population of that vast Empire was able to enter the colonies inhabited by white men. The country whose ships were to be met with at all times within the seven seas has no great history of her world-wide services in facilitating distribution. Forty per cent.[2] of the seaborne trade of the world was concentrated in 1913 on these scraps of islands on the outskirts of the Atlantic, and the people of the United Kingdom have only statistical record of the magnitude of the world exchange they

[1] Professor Marshall in his new book *Industry and Trade* deals with Britain's Industrial Leadership" in Chapters iii., iv. and v.

[2] Cd. 9092 (1918), p. 75.

facilitate. The conquest of space, the rapidity of the transfer of goods, the security of trade and travel, the regularity of dispatch; all these are recent things in economics; they are due to Great Britain and their epic has remained unsung. Sombart has written *Deutsche Wirtschaftsgeschichte im neunzehnten Jahrhundert.* Levasseur has written the *Histoire des classes ouvrières en France après* 1789, in two ponderous volumes of over 800 pages each, and they chronicle French achievements only up to 1870. After that date he takes another volume of similar length to describe *Questions ouvrières sous la troisième république.* Mavor has written in two volumes the economic history of Russia, but no one has as yet written the economic history of the British in the century of their greatest effort. It is, perhaps, due to the fact that the subject is almost too vast: it would have to embrace the world, so great was England's universal influence during this period.

The book under review attempts to fill this gap. It chronicles the economic happenings chiefly as they appeared to be important to contemporary Members of Parliament. The book, though useful, is dreary. It lacks emphasis. It is only really a tool for economic historians who know what they want to look for and wish to verify something. In following chronology it leaves no definite impression which would make it useful for ordinary readers, because it passes so rapidly from one subject to another. The headings of the chapters do not give one much clue as to the character of the chief economic events of the time: "War and Finance, 1852 to 1859," "Free Trade, 1859 to 1868," "Retrenchment and Reform, 1860 to 1880," "Organisation, 1880 to 1892," "Unrest, 1910 to 1914," are too vague to be good signposts. The supremacy of Great Britain during the past hundred years has been based on the excellence of her manufactures, the abundance and transportability of her coal, her ubiquitous shipping, her huge investments abroad and her great network of financial organisations for international trade which has made the bill on London the world's commercial currency. Yet none of these things are really made prominent in this history. Those who use the book are not much helped by a rather inadequate index. For instance, there is nothing in the index under the head of inspector. Under the head of factory and workshop legislation one finds "Women inspectors appointed," but presumably no men inspectors ever existed, as there is no reference to them. It is only when one knows that they started in 1833 and reads through the 1830–1841 chapter of forty-three pages that one finds them. But to persons who do not know the facts

this is a drawback. Again, there is one index reference to estate duties, none to legacy duties, and three to succession duties; but no cross references to help the person who did not know that succession and estate duties were the same form of finance. Under income tax there is no reference to show that an excellent history of the changes in the income tax has been prepared in table 9 of Vol. II. The only references to "towns" in the index is the Town-planning Act. There is no heading "municipalities," nor can I find any mention in the text of the Municipal Reform Act of 1835, which prepared the way, by breaking up the close corporations, for the great economic activities of the towns during the nineteenth century. A chronological history should have a first-rate topical index to be really useful.

The method adopted of chronicling only what is reflected in Parliament has serious defects, especially if it is intended to give an adequate account of the English, who are self-castigators by nature. They are always vocal when things go badly, but are never willing to admit that things are going well. This history records a long series of complaints about the pressure of foreign competition, even when we know from other sources how supreme was the English position up to 1870. I do not think that anyone reading this history would gather the impression that England was exceedingly prosperous between the years 1850–1870; that prices were rising, but that wages were rising out of proportion to the rise of prices; that employment was brisk, and that enormous sums were being sent abroad as loans. It would be easy to prove from contemporaries that England has gone down-hill ever since the time of Julius Cæsar.

It seems to me that more use might have been made of some of the standard reports of Commissions. For instance, one of the most important events in the history of engineering was the introduction of machine tools, *i.e.*, machines to make machines. Up to 1820 machines were all constructed by hand, they varied enormously, they were expensive, and there was great difficulty in getting them to work properly when set going, while repairs were a standing obstacle to the general introduction of machines. After the introduction of machine tools machinery could be turned out rapidly and accurately by mere labourers. It was then that the real industrial "revolution" occurred. Of this I can find no mention in a book purporting to treat of commerce and industry. If the reports on the export of machinery in 1825 and 1841 had been utilised, I think this would have been fully realised and more stress laid on Great Britain's continuous pro-

gress in technique during those years while her influence on foreign countries becomes at once apparent.

Again, in a book dealing with British commerce, surely some reference ought to have been made, even if Members of Parliament did not realise it, to the revolution in commerce occasioned by mechanical transport. In the sixteenth century it was spices; in the seventeenth and eighteenth colonial products, such as tea, coffee, sugar and tobacco, that were, together with wool, the chief objects of commerce; in the nineteenth the commercial revolution consists in the prominence and value of the bulky products, coal, iron, wheat, meat, cotton, timber, as well as such new products as jute, petroleum, edible oils and rubber. Wool is the only thing that holds its place in the scale of relative importance. The things that counted most in commerce had changed completely.

There is, however, no work known to me in which there is such a good chronicle of recent events since the opening of the twentieth century.

There are some errors of minor importance in the Introduction. Speaking of joint stock companies (p. 7), the author says: "These companies did not seek . . . such [exclusive] privileges in European countries." The Muscovy Company, founded during Mary's reign to trade with Russia, was a joint stock company, and certainly sought and obtained exclusive privileges. The Levant Company, 1851, was also a joint stock company up to 1600. They traded with both the Italian peninsula and Turkey and also sought and obtained exclusive privileges (W. R. Scott, *Joint Stock Companies*, II.). Nor is it correct to say that the East India Company, founded as a regulated company, became a joint stock company in 1612. The committee that met in 1599 decided that the trade to India was so remote that it could not be carried on "but in a joint and united stock" (Scott, II., p. 91). The voyages were joint stock from the very first, but they were terminable stocks and with a share out of capital and profit after each voyage. In 1613 the capital was adventured for four successive voyages, and to avoid the fatal name of thirteen, as this voyage would have been the thirteenth, it was called the "First Joint Stock."

It is also quite misleading to say on p. 8 that France, our great commercial rival, was "entirely preoccupied during the last half of the eighteenth century with war." In 1788 her export and import trade were larger than those of Great Britain, being about £40 million (Levasseur, *Hist. du Commerce*, II.,

p. 517), while the British was £32,261,000 (Leone Levi, *British Commerce*, p. 64). The French colonial trade (excluding the Indies) was greater in 1789 than that of Great Britain in 1771–2, when the latter still possessed all her North American colonies. The import and export trade of Great Britain with her American colonies was £9,535,390 at that date, and that of France amounted to £11 millions in 1788, reckoning the livre as the equivalent of the franc and twenty-five francs as equal to the £. Her total imports had grown from £3·7 millions in 1715 to £23·6 in 1787, the exports from £4·7 to £20·7.[1] It is a marvellous record of expansion, and shows that France was by no means entirely preoccupied by war. She was also carrying out a series of liberal reforms of all kinds in agriculture, finance and industry. Her roads were improving and were the best in Europe. She was a most formidable rival of this country. Indeed, France was the foremost industrial Power before 1789, and England was second. It was the destruction caused by the French Revolution that gave England the chance to forge ahead.

Professor Ashley has written a most interesting introduction to this book, contrasting the position of England in 1815 and 1914, and pointing out the significance of the figures in Vol. II. These latter are a collection of very useful tables dealing with population, trade, employment and finance during the century.

As one traces in this work the story of the spread of English influence beyond the seas, it is perhaps consoling to think that, although it may be cur turn some day to undergo a period of economic decline, we shall have stamped ourselves even more indelibly on the world than the ancient Romans.

The sixteenth century belonged to Spain, the seventeenth to Holland, the eighteenth to France, but the nineteenth is the century of the United Kingdom.

L. KNOWLES

The Early English Customs System: A Documentary Study of the Institutional and Economic History of the Customs from the Thirteenth to the Sixteenth Century. (Harvard Economic Studies, Vol. XVIII.) By N. S. B. GRAS, Ph.D. (1918.)

DR. GRAS, already known to English scholars by his work on *The Evolution of the English Corn Market*, has made an important contribution to the study of the early English customs

[1] Levasseur, *Hist. du Commerce*, I., 517–18.

system. His book is divided into two parts. The first contains an exposition of the history of the customs down to the middle of the sixteenth century; the second "provides materials for further study" in the shape of five to six hundred pages of customs documents.

Scholars will probably turn first to these "materials for further study," for the Introduction is itself based upon them; and they will find their contents well worth the labour of minute investigation. Historians of the customs have hitherto relied mainly upon *summary accounts* of the customs, which give a summary of foreign trade, but not a detailed record. Dr. Gras, who tells us that he is "the first privileged to utilise" a new series of accounts "discovered at the Public Record Office," bases his work upon the *particulars* of customs accounts—detailed customs accounts which place before us "information about the exporter or importer, the amount, kind, and often the value of the goods, the customs paid, the ship and master of the ship, the date, and the port in question." The value of documentary material of this kind cannot be over-estimated. It serves to show the nature of our trade connections, and the character of our imports and exports at different periods. It illustrates the activities of native and foreign shippers, and enables us to trace the gradual elimination of the foreigner from the control of the carrying trade. It throws light upon the origins of English industry and provides data for the history of prices.

Take, for example, the woollen industry, the staple industry of England from the twelfth to the nineteenth century. It is evident from the Patent Rolls and other sources of evidence that long before the immigration of Flemish artisans under Edward III. large quantities of cloth were worked up for a market in numerous parts of the country during the twelfth and thirteenth centuries, and were also exported abroad. A study of the customs accounts abundantly confirms this view. The customs paid on commodities exported from Boston in 1303 (February 10th to September 28th) amounted in round figures to £70. Nearly 30 per cent. of this sum was paid on cloth dyed, undyed, or partly dyed (p. 288); the rest, about £50, was paid on commodities (*aliarum rerum*) valued at over £4,000. Moreover, the commodities covered by the term *aliarum rerum* also included cloths of England and worsted, of which three lots alone were worth near £1,400. Indeed, one foreign trader, Tidman, whose namesake was said in 1347 to own the monopoly of tin in Cornwall,[1] exported no less than £250 worth of cloth of England.

[1] *Rotuli Parliamentorum* 11, 168A.

On the other hand, considerable quantities of cloth were imported into this country. The customs paid by aliens at Boston during the period in question on cloths, dyed, undyed, or partly dyed, amounted to nearly £70, or over three times the amount paid on the export of similar kinds of cloth. It may be remarked that Misselden in his *Circle of Commerce* printed an old Exchequer account assigned to 28 Edward III. in which the value of imported cloth was stated to be three times that of exported cloth. It is worth while to observe that almost the whole of the imported cloth was undyed, and this, taken in conjunction with the large sums recorded by Madox as paid on imported woad in the twelfth century, suggests that native dyers were more successful in meeting the requirements of their age than they appear to have been in later centuries.

In the light of the evidence which he has collected Dr. Gras formulates a new theory as to the origin of the English customs. He rejects the well-known theory that the customs system took its rise in prerogative prises; in other words, that the national customs originated in the King's practice of seizing goods to his own advantage, a practice supposed to have been "finally changed into a system of commuted money payments." Instead he puts forward the view that the national customs originated in money dues rather than in prises, and were founded upon the model of the local customs, which are held to have constituted "the prototypes of the national customs." It is possible to argue that the prototypes themselves may have originated in arbitrary exactions which were afterwards reduced to a system, but at any rate Dr. Gras has succeeded in throwing considerable light upon the obscure history of the pre-Edwardian customs system. He gives an excellent account of the local, or, as he terms them, the "semi-national" customs—namely, lastage or dues paid by ships leaving port with cargoes of regular merchandise, scavage or tax due in seaports on wares imported from beyond seas, wine custom or "cornage," and the wine prise, ultimately a money payment known as butlerage—and of the national customs system of King John (the Winchester Assize of Customs), and the *novum auxilium* of 1266. This leads up to the "Edwardian customs establishment," the three pillars of which were the ancient custom of 1275, here treated as "a really new custom, new in kind, in the machinery of collection, and in the authority establishing it," and not "an outgrowth of the prise" (p. 65), the new custom of 1303, and the cloth custom of 1347 .

In the discussion on town tolls Dr. Gras points out that "the

exemption of certain privileged persons from the necessity of paying town customs was one of the main features of the system" (p. 25). But he has not remarked that in many cases the privilege was not valid for purposes of trade. Tenants in Ancient Demesne, for example, were not exempt from toll (despite Fitzherbert's assertion to the contrary) when they bought and sold their goods as merchants. Dr. Gras raises the question whether "these exemptions were not really short-sighted royal concessions to rich towns, or places under the patronage of a powerful lord, and in all cases the logical completion of an exclusive and privileged order of things" (p. 132). This interpretation is hardly likely to commend itself to historians. An "exclusive and privileged order of things" already existed in the trade monopoly established by the merchant gild and in the protective system of the corporate boroughs, and its destruction was largely effected by this very process of piecemeal encroachment on the part of competing communities. Liberty emerged from the conflict of rival and overlapping *libertates*; and the multiplication of grants of immunity facilitated commercial intercourse, and paved the way for national economic unity by breaking down the local customs barriers. Moreover, the long list of boroughs whose citizens were entitled to exemption from local tolls by virtue of charters or commercial treaties indicates that immunity was not the privilege of the "rich towns" alone, but that, on the contrary, the great mass of traders throughout the country were able to claim freedom of traffic.

In his remarks on the Hanseatic League Professor Gras takes exception to a statement by the present writer that the immunity of the Hanseatic merchants from the cloth duty of 1347 is the "measure of the preferential tariffs enjoyed by the Hansards." "It was really," he comments, "the striking exception." It was really nothing of the kind. Under the Tudors the Hansards were not only exempt from the cloth duty of 1347, but also from the subsidy paid on all goods (except, probably, wool and skins).[1] On commodities other than wool, skins, wax and cloth, natives paid a subsidy of 12d. per £, foreigners (other than the Hansards) paid a subsidy of 12d. plus the custom of 3d., and the Hansards paid the custom of 3d., but no subsidy. This custom of 3d. in the £ is evidently their privilege, mentioned by Wheeler,[2] "to carry out and bring in wares for an old custom of one and a quarter upon the hundred." Further, in the case of wax, where other

[1] The Hansards (like natives) paid a small subsidy (1d.) on worsteds; other aliens paid a subsidy of 12d. in the £.

[2] *Treatise of Commerce* (1601), 63.

foreigners paid 2s. in custom and subsidy, the Hansards, like natives, paid only the custom of 1s.

Among other points of interest light is thrown upon the subject of partnership. English and foreign merchants traded in partnership (pp. 168 *seq.*, 225, 454), and the mariners' portage at Boston in 1327 appears to foreshadow the later joint-stock company (p. 114). There is occasional mention of women traders, *e.g.*, Johanna vxor Admar' de Lile, who imported over twenty tons of wine (p. 401), and Nell' Bartholomuxdoghter, who imported into England (p. 500) a barrel and a half of spice cakes and a sack of patyns (paten cakes). This supplements what is already known of the part taken by women in industry and local trade. Among the commodities imported at the beginning of the fourteenth century we find *lane Hispannie* (pp. 312 *seq.*), destined ultimately to take the place of English wool as the finest in Europe. Another interesting commodity, exported from England, is "cloth of Ireland." Macpherson identified it as Irish cloth, but it may possibly have been a kind of worsted cloth, since (according to the editors of the Norwich Records) worsteds were sometimes called "Irelonds."

The Patent Rolls have already disclosed the fact that the extent to which English merchants carried on foreign trade in the thirteenth and early fourteenth century has been greatly under-estimated. The customs accounts, particularly after 1347, afford indications as to the nationality or domicile of the shippers, and so provide a basis for comparison of the activities of denizens and aliens. It is evident that native traders were responsible for a very large number of shipments. Moreover, of the eighty-two ships engaged in the wine trade in 1327–28, about fifty-seven were from English ports, revealing the "surprising fact that England was supplying even alien importers of wine with most of their shipping" (p. 399).

We have noticed a number of slips. On p. 109 the number of cloths of part grain imported at Boston is given as 47 instead of 45, and the figure 91 on the same page should be 90. On p. 111 the number of denizens carrying on foreign trade is given as 143 instead of 142, and the number of shipments as 3,847 instead of 3,837. The statement on p. 115 that Winchelsea took one tun of wine does not seem correct. But these are trifling blemishes in a work of undoubted value.

E. LIPSON

The Economic Foundations of Peace: or World-Partnership as the Truer Basis of the League of Nations. By J. L. GARVIN, Editor of the *Observer*. (London : Macmillan and Co. 1919. Pp. 574. 8vo. 12*s*. net.)

BY what devices of international agreement and organisation can the peace and prosperity of the world be best ensured? The volume before us aspires to the height of this great argument. It is conceived in a lofty public spirit, and is written with knowledge, imagination, and an almost passionate fervour.

Taking the Covenant of the League of Nations as it stands, we find that some of its critics, not in America alone, are of opinion that its advantages on the whole are outweighed by its disadvantages. They believe that the paper provisions, as Carlyle says, will not *march*. They fasten upon President Wilson's speech claiming that in the past we have been minding our own business, but that in the future we shall be minding other people's business, as a condemnation of the scheme. And this, not because, as Mr. Garvin would have it, they are craven doubters who have no vision, but because they believe the result will be discord, paralysis, procrastination, and inefficiency, and because they dislike the corollary that others will mind our business. They hold with a former Prime Minister of our country that good government is no substitute for self-government, while denying, on the experience of Egypt and other countries, that international control would be good for the nation concerned. In a word, while ardently desiring the peace and happiness of the world, they contend that this is not the best way to promote it. It is a defect that instead of detailing the arguments of this school and subjecting them to initial analysis Mr. Garvin brushes them aside as unworthy of serious consideration.

Others there are who feel that the League of Nations is a great stride in the progress of humanity. They hope and believe that it will make the armed conflicts of peoples a thing of the past, and that, given international security, the healing power of commerce—mental and moral as well as material—between the nations will assert its sovran power and give us a better world. With these our author is almost equally impatient. If the League is to be juridical, political, diplomatic, a paraphernalia of sealing-wax, red tape, big-wigs and special constables, it will, in his view, miserably fail of its objects and lose its opportunities.

What, then, is required? Mr. Garvin demands a World-Partnership, a new way of working together, an allied Economic Council to pool, purchase, and allot among the nations the essen-

tial foodstuffs and raw materials, international codes of labour, the restoration of Germany and Russia to healthy working conditions, and their early admission into the League of Nations. The League has already its economic and financial organisations designed to carry us through the period of transition, but Mr. Garvin would like to see them develop into permanent institutions. He sees no middle course between "the fullest competition and the fullest co-operation." Extolling orderly regulation of world-business by something approaching a Parliament of Man, he exhausts his epithets of condemnation of free competition—soulless, scrambling, profiteering, anarchic, and internecine. Unfortunately, in the mere matter of hard swearing he can hardly outdo the advocates of the opposite side, to whom private enterprise and free competition are healthy, natural, and beneficent, while the dead hand of Government working through the insane formalism of bureaucracy is blighting, blundering, and fatal. The reviewer is not called upon to discuss these antitheses. Suffice it to point out that Mr. Garvin is forensic and not judicial. His volume is a declamatory brief. Simile, epigram, and rhetoric are abundant. But rhapsody on the establishment of a Postal Union, the progress of aviation, and the shrinkage of world-distance is not logically knit to the argument so closely as to persuade the judicial reader that these changes tell one way rather than the other. The over-emphasis is so insistent that it tends to provoke an anti-bias in those who have a prejudice against prejudices.

When all this has been said the fact remains that the book contains much enlightening information, and is an able and interesting contribution to one side of a problem of the highest importance.

HENRY HIGGS

The Foundations of National Prosperity. Studies in the Conservation of Permanent National Resources. By RICHARD T. ELY, RALPH H. HESS, CHARLES L. KEITH, AND THOMAS NIXON CARVER. (New York: The Macmillan Company. 1918. Pp. xxix + 378.)

THE four essays which make up this volume were prepared independently by their writers for the second Pan-American Scientific Congress, and were subsequently collected and brought out in volume form. A little repetition is therefore to be expected, although the four writers treat different aspects of the subject.

Professor Ely introduces the reader to the general theory of

conservation. The vast resources of America have in the past encouraged carelessness and even waste. In 1870 Webster's Dictionary did not contain the word "forestry"; in 1893 a German visitor to the World's Fair at Chicago characterised his hosts as a nation of butchers, who slaughtered the gifts of Nature, wasting their forest resources, their mineral treasures and their soil. Since then America has begun to make up for her past sins, and the conservation movement led by President Roosevelt, Gifford Pinchot, and President van Hise has gained much ground.

Since it is obvious that a nation must learn to conserve its resources, if it would live, this point is demonstrated at somewhat undue length by the writers of the first two essays. The question of practical interest to-day is how far the existing systems of private ownership and individual enterprise can be relied on to achieve the nation's purposes. Three out of the four writers do not arrive at very definite conclusions on this point. Professor Ely does indeed deplore the wastefulness of unregulated competition, and maintains that *laissez-faire* and conservation are incompatible. Not only is individual vision apt to be too limited —the individual has no adequate inducement to conserve the nation's resources where his own interests happen to conflict with its demands. The near exhaustion of the coalfields, for instance, will lead no one to deny himself a single scuttle of coal. On the other hand, Professor Ely holds that private ownership in land gives the best results, and that the freehold has justified itself. He considers that oil-bearing lands should be State-owned, since oil is essential to the Navy and national defence, and he advocates State-ownership for forests, minerals and for water. Nevertheless, he would have mines operated privately, with a limited amount of public ownership. This position he considers that past history has made inevitable, and he consoles himself with the reflection that there is a greater degree of harmony between private and public interests than has generally been supposed.

Professor Hess reaches very similar conclusions. His main thesis is that each stage of economic evolution has its own problems of conservation, and a policy best suited to its purposes. In the early stages of a country's development, reckless and wasteful exploitation of its resources is almost inevitable. The pioneer must have immediate returns at whatever cost; later, when capital is more abundant and investors can wait for their profits, conservation becomes possible. After laying considerable stress on the inadequacy of the motives that would lead private individuals to practise conservation, the writer nevertheless con-

cludes that, where there is no danger of monopoly, good private business policy usually parallels social welfare.

The third essay deals exclusively with mineral resources, and Professor Keith considers the problems presented by coal, iron ore and copper in some detail. The crucial question is: "What are the available resources?" and an exact reply is impossible. It is not really helpful to the citizens of the United States to be told that the life of their coalfields may be anything between 100 and 4,000 years, with a probability in favour of the nearer limit. The supplies of iron ore are no easier to gauge, since the reserves in unexplored regions are impossible to estimate. It is suggested that there will probably be no shortage for 200 years or more. Moreover, methods of extraction from low-grade ores are constantly improving. The same applies to copper, the supplies of which afford no ground for anxiety.

Professor Keith is of opinion that public ownership could improve very little on the methods already in operation under a system of private enterprise, and concludes, like the previous writers, that there is more harmony between private action and public welfare than one would be inclined to suppose.

Public ownership could improve the conditions and the yields of the poorer mines, and would have the advantage of better credit and the power of borrowing at a lower rate of interest. It could eliminate resource and royalty costs, control over-capitalisation, and encourage co-operation among competitive units. But we cannot forecast either our future requirements or the probable changes in the methods of extraction, nor is it possible to estimate the existing reserves. In these circumstances, the writer concludes, drastic measures in the interests of the future would be unjustifiable guesswork.

Professor Carver's essay on "The Conservation of Human Resources" is the most interesting and suggestive of the four. The whole question of natural resources, after all, resolves itself into a question of the capacity of the people who will use these resources. A capable race will extract a living from the poorest surroundings, while the richest natural resources will not avail a race of idlers and wastrels.

In a suggestive chapter on idleness as a source of waste Professor Carver maintains that the involuntary idleness of the unemployed is much less to be deplored than the voluntary idleness of the leisured class. The unemployed are probably men of small ability, who would not achieve much even if they were busy, while the leisured class are likely to be persons of educa-

tion and capacity, whose idleness is a real loss to the community. In this respect the worst sinner is the business man who retires with a competence, for it is the very qualities which have secured him that competence and enabled him to retire, that would have rendered the greatest service so long as he remained active. Herein, and herein only, according to the writer, lies the perniciousness of inherited wealth.

Professor Carver introduces us to the idea that there is no economic or moral difference between the labourer who works only three days a week, because three days' wage will suffice him for seven days' needs, and the business man who works only four hours a day and golfs in the afternoons, or the captain of industry who retires in early middle life to enjoy his accumulated wealth. Each is equally wasting resources which his country needs, but the successful business man is wasting the talent which is most urgently needed. In short, the busy rich (whom Mr. G. D. H. Cole, for instance, finds so much more dangerous than the idle rich) are, according to Professor Carver, a nation's most valuable assets. Another person of value is the investor, who is described as the shock absorber or insurer of society against waste. He automatically charges himself with the task of turning the productive energy of the country into the right channels. If he happens to choose a wrong channel, society will eliminate him, and the sooner the better for society. A skilful investor, on the other hand, who makes no mistakes, is one of the greatest conservers of human energy. Unfortunately, the writer concludes, no method has yet been discovered by means of which men in a Government office, working on a salary, can be thus selected for the direction of the productive energy of society.

Professor Carver offers no panacea for curing the ills of society except the gospel of work; the task of the nation builder of the future is to realise the available energy of the people and set it to work. "Thus and thus only can a nation grow great enough and strong enough to be fit to survive."

H. REYNARD

Principles of Political Economy. By THOMAS NIXON CARVER. (Ginn and Company. 8*s*. 6*d*.)

THE lucidity and convincing manner in which Professor Carver lays down the conditions and expounds the principles of national prosperity and welfare make the dedication of his book most appropriate: "To all those who care to see their country grow strong and great."

He has derived inspiration from the economic lessons and achievements of the war; and realising that the final test of racial and national supremacy and endurance is conformity with economic principles, he keeps this point of view prominent throughout his book. Preparedness for this final and ultimate conflict among nations "will consist in the study of standards of living and the adoption of such standards and habits as will increase productive efficiency to the maximum and reduce the cost of living to the lowest point which is consistent with maximum productivity."

Professor Carver has with unusual skill kept economic theory in close touch with real life, thereby making his book interesting and stimulating for the ordinary reader. Differently from most writers on economics he considers it necessary to devote a special chapter to morals and religion, emphasising their important economic functions. The ethical aspect of the subject is further developed in the fifth part of the book—"The Consumption of Wealth." Throughout this part of the book he aims at showing the reaction of the consumption of wealth upon the general prosperity and strength of the nation. And, while deprecating the evil effects of wasteful luxury and pointing out the circumstances under which public opinion should condemn it, yet he maintains, as David Hume did, "that luxuries must be regarded as a storehouse of labour which in the exigencies of the State may be turned to public service."

His discussion of co-operation is suggestive, and he carefully distinguishes co-operation among producers or among workers in stores and factories from certain forms of co-operation which he regards as quasi-capitalistic, such as co-operative creameries. And he considers there is a fundamental reason why co-operative enterprises have not flourished in the field of production as often as they have in the field of buying and selling. "Competitive production always works well; competitive bargaining sometimes works well and sometimes works badly. . . . In the field of competitive bargaining, however, evils frequently spring up where a large and widely scattered body of producers are at a great disadvantage in bargaining with a compact body of dealers." Where this is the case it is necessary for the producers to get together in a co-operative organisation in order to bargain on equal terms with the dealers.

The problems of Money and Banking are treated too summarily, though he brings the American legislation on banking up to 1918, and his description of the Act of 1916, inaugurating the

American farm bank system, is adequate and interesting for those who aim at the reconstruction of agriculture. He does not adopt any general definition of money or credit, nor does he treat of credit in its relation to banking deposits, nor of the nature of the latter.

His explanation of the ideas of total and marginal utility is inadequate. He does not differentiate between the total utility of a commodity for society and for a given individual. And the diagrams on pages 278, 279, over-simplify the difficulties involved in the concept, and suggest the possibility of measuring the abstraction total utility. Total utility as an abstraction has little application to real life; and, as Professor Carver himself frequently points out, the really important problem in the economic world is the problem of having more or less of various things.

If one indulged in philosophical refinements of language one might object to the statement on page 278: "Utility exists in the object outside the human being, and is that which is capable of satisfying his desires." This is incompatible with the next statement: "In proportion as the human being's desire is capable of being satisfied, in that proportion does the utility of the object which satisfies that desire diminish as its quantity increases." This statement shows that utility, as well as desire, has a subjective aspect and does not altogether exist in the object outside the human being.

With reference to the diagram on page 278, he is not correct in saying that "when the quantity is represented by the line O G, each unit is desired with an intensity represented by the line O E." The intensity represented by the line O E represents only the marginal utility, and not the intensity of each of the preceding units which is greater.

In his chapter on "Personal and Professional Services," where he quotes from John Stuart Mill, he inserts in the second line of his quotation *unproductive* for *productive* labour.

With reference to economic crises and industrial depression, he considers the explanation must be sought in the laws of value which govern investment. "A slight fluctuation in the value of a product tends to produce a violent fluctuation in the value of the establishment producing it. The farther goods are from some consumable product, and the more remotely their value is derived from that of some consumable product, the more violent the fluctuation in value tends to be."

He considers it possible for the Government by some sort of discriminative tariff to attract labour and capital from the less

productive to the more productive industries. Whereas individuals when left to themselves confine themselves to those which are most profitable for themselves. And he points out that what is most profitable for the individual is not always the most productive for the country. Against this it might be alleged that the Government is not always the best judge in normal times of what is most productive; and that by admitting the principle of discrimination a way is open to political corruption. Again, this discrimination clashes with the principle laid down by him in discussing constructive liberalism. "The interests of the public are expressed quite as accurately on the market and through the price lists as through the ballot box and the statute books."

His discussion on the "Principles of Public Finance" is inadequate even for beginners, though the chapter on "War Finance" omits none of the problems or the refutation of the many fallacies made familiar to us during the recent war.

His treatment of "Communism, Socialism, and Anarchism" is judicial, and though he is fully alive to the evils that have resulted from a capitalistic organisation of industry, yet he furnishes strong psychological and economic arguments against a socialistic structure of industry.

He puts forward in the concluding chapter a programme of constructive liberalism which is capable of creating the proper conditions for labour. It fact, he seems over-optimistic in the efficacy of liberalism solving the problems of capitalism and poverty. "Under the system of free contract each man tends to find the place in the industrial system in which he can best fit. This is the method of trial and error. Each individual tries himself out and does not have to wait for the consent of someone else. Under the system of universal government operation the would-be farmer would have no better chance to test himself, or to advance on his own initiative, than he has now in the army of the civil service." . . . "It is quite possible, by the use of a little intelligence and progressiveness, to create conditions under which the demand for labour will continually expand and the supply of unskilled labour continually contract, putting the unskilled labour in a continually improving situation with respect to the bargaining process, making it continually easier for the labourer to find a job at remunerative wages, but, as a necessary consequence, continually more difficult for the employer to find unskilled labour at low wages."

Hence, he considers the remedy consists in adopting the means of decreasing the number of unskilled workers by educa-

tion, postponing the marriage period, restricting immigration, thrift, and a higher standard of living. By the adoption of these means a well-balanced population will be attained.

His excellent chapters on the source of interest and the cost of capital and its price are based on those of his *Distribution of Wealth*.

In his chapter on "Power" he does not attempt an adequate definition of that concept, and a mathematician would be apt to disagree with the sub-divisions of mechanical power that appear on page 141.

Throughout the book there is required on the part of the reader an elementary knowledge of the principles and structure of labour and industry. It does not fulfil the functions of an elementary text-book. The absence of historical references to the classical aspects of economic theory further emphasises this deficiency. Yet this criticism should not take in the least from the real merits of the book, which can and ought to be read with advantage by any educated member of the community. Its style, lucidity, and clearly marked sequence of thought make it not only instructive, but pleasant reading.

T. A. Smiddy

War Borrowing: A Study of Treasury Certificates of Indebtedness of the United States. By Jacob H. Hollander, Professor of Political Economy in the Johns Hopkins University. (New York: The Macmillan Company. 1919. 12mo., 215 pp.)

If Government is forced (or thinks itself forced) to borrow, it may seem to the plain man that the art may be summed up in a few words: "Borrow as cheaply and as easily as you can." Unfortunately, what seems at the moment to be the cheapest course may prove in retrospect to have been unnecessarily expensive, and when this cannot be directly established may be found to yield a terrible aftermath of social costs such as always follows in the train of an orgy of rag-money.

The Treasury Certificates of Indebtedness of the United States are short-term negotiable securities differing only in unimportant points of detail from our Treasury Bills. Professor Hollander has done good service in his critical examination of the use of this engine of finance during the Great War. He touches lightly upon earlier borrowings of the United States. Are the details not written in the books of Dewey, Knox, and other authorities? But he gives us a lucid and complete account of borrowings since America entered into the Armageddon. And his analysis is a

useful supplement to the classical *Public Debts* of his distinguished countryman, H. C. Adams.

What are the advantages and disadvantages of the short currency bill as compared with the longer loan? Is a long loan better if "spectacular" or "globular," or if "on tap" by continuous borrowing? If an instalment loan is floated, ought instalments to be accepted in advance of their due date? Ought over-subscription to be accepted? What are the effects of the different forms of borrowing upon prices, through inflation, upon the money-market, through stringency, and upon Government economy, either by causing an embarrassing plethora in the Treasury balance or by relaxing the control of expenditure through the operation of the maxim, "Easy comes, easy goes"? These and other questions are of great practical importance, and their scientific examination should be of great practical service. The reader must turn to Professor Hollander's volume for his guarded conclusions upon these subjects. His criticism of the United States finance is not one upon which a British student can form a confident conclusion. The later Liberty Loans proved that money could be raised at lower rates than had been paid on bills. But on the general question of what was the wisest course to follow, we may do well to bear in mind that borrowing depends very much upon financial weather, that meteorology is not yet an exact science, and that operations on a colossal scale are not always carried out on the same terms as smaller operations, the change of magnitude introducing something like a chemical change into the components of the problem. Finally the impulse of patriotism in a great national crisis may be strong enough to upset all the nicely calculated estimates of international or cosmopolitan financiers as to the rate at which people will be ready to subscribe to Government loans when the nation is in danger.

To say that the particular circumstances of the case must be taken into account is not to impugn the broad considerations adduced by the author. Experience teaches only if it is understood. Otherwise it is not merely fruitless, but may even be misleading. And we are grateful for this able and careful study of what the experience of our American cousins has actually been.

HENRY HIGGS

Interim Report of the European Commission of the National Industrial Conference. (Boston, Mass., 15 Beacon Street. 1919. $2.)

THIS summary report affords to British readers the advantage of seeing themselves as they are seen by some very intelligent

citizens of another country. The observations and reflections here offered deserve the attention alike of employers, employees, and the general public. The reporters, who belong to the employing class—mostly "Presidents" of Companies—do not underrate the need of intelligent management. "The manager is the pivot of success for any concern. He is the most important figure in the life of industry." The function of *entrepreneur* is in part discharged by directors. "Large dividends are in many cases due to the skill of management of men who are not often recognised, but who are nevertheless the true causes of industrial success. Without them earnings would disappear. The presence of these earnings of skill is no reason why they should be claimed by some other factor of production that could not have been the cause of them." The ideal employer ought to be trying to raise the standard of living and even to promote the intelligence and character of the men. "The neglect by employers for years past of a proper interest in their employees" is a main cause of the present strained relations between the two parties in Great Britain. The Commissioners have not much sympathy with those unionists who seek to create by force a purely industrial society. With reference to the demand of Labour for a share in management, it is observed that "the opposition on the part of some workers to the necessary setting up of reserve and the use of profits for the expansion of business facilities is most unfortunate." The restriction of output by some British Trade Unions is noticed, and the following motives are assigned in the relative order of importance: "Fear of rate-cutting by the employer, dread of unemployment, the desire to protect inferior workers, the wish to safeguard health, and the natural disinclination to work too hard." The danger of such restriction appears from some comparisons instituted between American and British industry. "The United States has been increasing the quantity of its coal exports to Italy, Sweden, Spain, and other countries. The explanation of this change is partly due to the fact that in the period up to 1912 the output in tons per employee had fallen in Great Britain from 312 to 244 tons, but that it had risen in the United States from 400 to 660 tons." . . . "The English collieries and docks—certainly in Wales—are not equipped with such modern labour-saving machinery as in the United States." "The relative disadvantage of Great Britain in respect of costs seems to be mainly due to inferior manufacturing methods and organisation." As to the prevention of industrial war, the reporters ascribe only a limited efficacy to the

creation of Shop Committees and Councils. "It is a mistake, according to our view, to suppose that mere machinery for joint discussion is likely to prove a cure-all." "What is fundamental is not the means of joint discussion, but the creation of such a normal rational point of view on both sides as will allow of co-operation towards increasing productivity."

F. Y. EDGEWORTH

The Forgotten Man and other Essays. By WILLIAM GRAHAM SUMMER. (New Haven: Yale University Press. 1918. Pp. 559. Price 10*s.* 6*d.*)

PROFESSOR SUMMER is a passionate advocate of Free Trade, of the gold standard, and of civil liberty—if the word "passionate" may, without fear of misunderstanding, be used to describe the lucid reasoning and temperate language of these essays. His main thesis is that we cannot interfere with economic laws, and that all attempts to create artificial values are doomed to failure.

The reader of the essays is struck by the fact that the author is not so much expounding economic theories as arguing against a body of vicious doctrine which has come to be part and parcel of the accepted beliefs of his countrymen. These doctrines have achieved credibility because they are plausible, because they are convenient, in the last resort because they serve the purpose of those who advocate them. It is easier to accept them than to search for the truth with open mind and honest purpose. It is much more attractive to believe that you can create and foster new industries by the simple expedient of placing taxes on imports; that you can get out of financial imbroglios by adopting a bimetallic currency; that you can legislate people into wealth and welfare, than to accept "the cold, hard fact that there is no device whatever to be invented for securing happiness without industry, economy and virtue."

In the battle against "Protectionism" the author is fighting for a forlorn cause, but he returns to the charge again and again with undiminished energy. His main grievance against Protection is that it diverts capital and labour from the channels which they would naturally choose, and where they would be most usefully and profitably employed. Under this system we deliberately select an industry in which under normal conditions it would not pay us to compete; we bar out the import from abroad by a prohibitive tax; we proceed to raise the price of our product, attract recalcitrant capital, and build up an artificial industry to the detriment of the consumer. The various apologies

for Protection are demolished with every weapon of sarcasm and paradox at the writer's command. Most of them belong to their age and country, but the argument that new industries must be protected until they are strong enough to stand alone, deserves further consideration here. The answer is that the protected industry never does become strong enough to stand alone. The time for removing the protective tax never arrives—at any rate in the lifetime of those who have anything to gain by the tax being retained. There, indeed, lies the viciousness of the whole system. Protection has never followed a definite, intelligent plan; tariff legislation is simply the resultant of the struggles of interested cliques, and the only question that need be asked about a tax on any given article is: "Who is behind it?"

The chapters on "The Philosophy of Strikes" and "Strikes and Industrial Organisation" are no doubt even more interesting to-day than they were to their original readers in 1883 and 1887. A strike has a good chance of success, according to Professor Summer, only if the workmen concerned have a monopoly, and clearly he does not believe in the existence of monopolies sufficiently effective. There is a presumption that the strikers' demands for higher wages could be granted if the employer could recoup himself by passing on the extra cost of production to the consumer, or if he would be satisfied with smaller profits for himself. Indeed, if the matter were so simple, no employer would hold out long against a strike. Why should he? Why should he undertake loss, worry and war for the sake of the consumer behind him? Even where there was no possibility of passing on the extra cost, the employer might still be willing to grant the demands of the strikers if he need "only submit to a positive and measurable curtailment of his profits." But the matter would not end there. Profits would be curtailed not once, but again and again by the same method. On the other hand, if the employees knew that the employers recouped themselves for a 5 per cent. increase of wages by a corresponding addition to the price of the product, they would "most naturally and properly immediately demand another 5 per cent. to be charged to the consumer in the same way." And so on *ad infinitum*. This Professor Summer considers an absurdity, and the conclusion would seem to be, though this is not definitely stated, that strikes cannot be successful. Nevertheless, this process is exactly what is occurring in many of our own industries to-day, with this difference—that employers who have granted an increase in wages generally find it difficult to adjust their prices exactly to the

increase, and give themselves the benefit of an extra slice of profit. Even the advance in wages obtained by the curtailing of profits cannot be ruled out as impossible. It may be acceded to under pressure of necessity, the employer hoping to make up the inevitable immediate loss by means of improved machinery and the general progress of his business.

The essay on the "Forgotten Man" affords the best illustration of the writer's philosophy. It is essentially an attack on quack remedies or short-sighted palliatives for evils which we can only hope to cure by facing facts with courage and honesty, and acting with wisdom and restraint. Professor Summer condemns summarily and categorically all the efforts, social and philanthropic, which consist of "relieving negligent people of the consequences of their negligence." But his chief quarrel with these benevolent efforts is not so much their lack of success in regard to their immediate objects, as the disastrous burden which they impose on the rest of the community. In every case someone suffers—someone pays the bill. And that someone is the "clean, honest, virtuous citizen" who does his work, pays his taxes, produces wealth, and keeps society going. He is never taken into account, for he presents no problem to statesmen, philanthropists or reformers. He is the Forgotten Man—incidentally, often a woman. He is our productive force which we are wasting, and "all he asks is liberty to free him from some of his burdens and allow him to use his powers for himself and for the commonwealth."

H. REYNARD

Australia: Problems and Prospects. By SIR CHARLES WADE, K.C. (Oxford: The Clarendon Press. 1919.)

No better interpreter of Australian problems to the British reader could be found than one who, first as Prime Minister of New South Wales and now as its Agent-General, has an inside knowledge of the subject of his little volume. The chapters on "Climate and Resources" and "Constitution" need not detain us here; and that on "Land Settlement" is mainly founded on Sir T. Coghlan's monumental work; but those on "Industrial and Social Problems" and "State Undertakings and Finance" are valuable and singularly suggestive. In the discussion on the subject of industrial arbitration Sir Charles gives as his deliberate judgment that, "although the Wages Boards are an efficient tribunal for determining the issues of fact, yet no machinery

has so far been devised which can successfully compel unwilling parties to observe the award, and recent legislation admits this position." "The general opinion to-day is that it must be moral authority rather than legal compulsion which is to enforce obedience to the industrial tribunals in the future."

The results of the preference given trade unionists under the interpretation of the law given by the President of the Industrial Arbitration Court in New South Wales are thus graphically stated: "In the course of the next two years the ranks of the trade unions increased largely in numerical strength, and every opportunity was taken to consolidate the members as supporters of the Labour Party. Thus the trade union, under the patronage of the Court, became the recruiting sergeant for a political party; and political influence played a great part in subsequent years in the administration of this legislation." "The general result of the work of these tribunals," Sir Charles explains, "has been an increase of wages or shortening of hours, but naturally, with the higher wage and increased price for material, the cost of all production has been greatly inflated. The employer invariably passes on to the public the increased cost so incurred, and the worker finds that he, as one of the consumers, is called upon from his increased wage to meet a much heavier bill for food, housing and clothing." Thus "the industrial world travels in a vicious circle until a point is reached at which it is not practicable to increase wages any more." When this point is reached the working classes shift their ground and demand that a maximum price should be fixed for the main commodities of household consumption. But Sir Charles Wade insists that "artificial machinery cannot regulate the laws of supply and demand"; and that "the only method of applying the policy of price-fixing with any prospect of success is that whereby the State becomes the owner of all commodities, where there are no middlemen, the producers all being employees and subject to the directions of the Government." Side by side with all this should be read the author's spirited defence of the Australian policy of undertaking public works by the State, in which he shows that the Australian public debts have been increased, to the extent of over 80 per cent., in the establishment of works directly yielding revenue.

H. E. EGERTON

The Six-Hour Day and other Industrial Questions. By LORD LEVERHULME. (George Allen and Unwin, Ltd. Pp. xv + 344. Price 12*s*. 6*d*. net.)

Piece-rate, Premium, and Bonus. By J. E. PROSSER. (Williams and Norgate. Pp. 122. Price 6*s*. net.)

The Industrial Council for the Building Industry. By the GARTON FOUNDATION. (Harrison and Sons. Pp. 153. Price 1*s*. net.)

THE demands of Labour to-day may be summed up in the words: more wages, more leisure, and more control over industry. Lord Leverhulme is in command of a business with an issued capital of over £23,000,000, and his reputation for making profits is so high that his last issue of £4,000,000 was over-subscribed at a time when £10,000,000 of issues were competing for the public favour. In his opinion factory life has a "deadening effect." "From fourteen years of age to seventy years of age is a long life-span, and if you consider the conditions of attending, for eight hours a day, the same automatic machinery and following the same routine, with its continual deadly, monotonous round of toil, those of us whose employment is varied will realise how this bites into the soul of a man or woman and tends to corrode it." Again: "Our industries progress, science progresses, but we have little or no corresponding progress in conditions of comfort of the workers. The employee-worker lags behind in that culture, education, social and economic well-being which he ought to enjoy under modern conditions of civilisation. Our manufacturing towns are squalid and over-crowded, with ugly dwellings, without gardens. They are unlovely congestions, without beauty or possibility of refinement, and the great bulk of the workers remain at a relatively low state of betterment. . . . Men and women who get up to go to work before daylight and return from that work after dark cannot find life worth living. They are simply working to earn enough one day to prepare themselves to go to work again the next day. Their whole life is one grey, dull, monotonous grind, and soon their lives become of no more value to themselves or the nation than that of mere machines." Perhaps those writers who are fond of screaming "Bolshevist!"—a couple of years ago it would have been "Boche!"—whenever there is a whisper of a strike will listen to this justification of industrial unrest from a peer and a millionaire. It is somewhat fashionable in some quarters to sneer at Lord Leverhulme, but there is little doubt that he is the only man among the wealthy captains of industry who is ready to confess that "our modern industrial system in this great United Kingdom stands self-condemned, when the income-tax

returns show that it rests on a basis whereby one-ninth of the population enjoy one-half the total income, and more than nine-tenths of the accumulated wealth, whilst the remaining eight-ninths of the population have only one-half of the total income, and possess less than one-tenth of the accumulated wealth." This disproportion is probably the reason why "this nation as a whole has never yet really trusted Labour"—as Lord Leverhulme asserts at the beginning of his book. "We have always borne a mental attitude of suspicion and distrust towards Labour."

Lord Leverhulme's proposals for "harmonising Labour and Capital"—which he explains from the dictionary as meaning "adjusting in fit proportions"—are well known. He would institute a six-hour day with continuous shifts and would in this way get a larger output at a lower wage-cost and with less strain on the worker. The reports on the health of munition workers show that the economies of short hours are not yet exhausted, but the continuous shift is likely to encounter a good deal of opposition from the housewife whose domestic economy it will upset. It is useful to remember that they are now citizens; and there is another point, that while four shifts in the twenty-four hours may be economical for the machines, the machinists will be forced to spend half their working time in turn under quite unnatural conditions. In the second place in his reforms Lord Leverhulme puts housing, and here all will agree. Thirdly, part of the new leisure is to be devoted to education, which in all grades should be more practical and less bookish.

All this is good, but is seen to be not enough. "If high wages, short hours, good housing meant finality to Labour Unrest, then Labour would not be a man but a vegetable." "Capitalists have now the task set them to democratise their system, and to create conditions that will enable Labour to take some democratic share in management, and some responsibility for the success of the undertaking." There must be Co-partnership—which must not be confounded with our old friend profit-sharing. The principle is somewhat vague; apparently after paying salaries and wages to management and labour and 5 or 6 per cent. to capital, capital and labour are to divide "the profits of their joint labour fairly and squarely between them." Here, as in the phrase "adjusting in fit proportion," there is the idea that under the present system there is discoverable an absolute norm of justice, a view which will not get the support of Mr. Smillie. Exactly how the workers at Port Sunlight share in management and responsibility is not quite clear, except that each undertakes "not to waste time,

labour, materials, or money in the discharge of his duties."[1] We may agree that it is futile to put workmen on boards of directors without giving them a training in the higher branches of work, but many will regard as ominous the statement that "the control must rest with those who find the capital."

Lord Leverhulme's book is a collection of addresses grouped together under the main themes; it is somewhat formless and too full of repetition, but it contains some good stories, and is excellent propaganda for his own views and also, as he will find when the pamphleteers get to work, for some views more "advanced" than his own.

To pass to Mr. Prosser's book from Lord Leverhulme's is somewhat like passing from a lecture to the notes for the lecture. It is a very compressed and very fair analysis of the chief methods of wage-payment—time-wage, piece-wage, and those intermediate forms which by some form of premium or bonus attempt to unite the advantages of time- and piece-wages by giving the workman a guarantee of a fair minimum, and at the same time such an inducement to speed up that the wages-cost of the work will be reduced. Once more we are in search of the maximum output and the wage which will induce its production, and still we have to struggle against the notion prevalent among workmen that a high standard of effort is dangerous to security of employment. This is not so foolish a notion as it seems, for while "in the long run" demand will certainly absorb the increased output, the workman is concerned with what is going to happen in the intervening period. Under one form of the Halsey premium, for example, assuming time-wages at tenpence an hour and other expenses also at tenpence, the reduction from ten to five hours in the time for doing a job means an increase of 30 per cent. in wages and a reduction of 42½ per cent. in cost, but the market has to be doubled if half the labour has not to be discharged. The workman has to take all the risk, and naturally he plays for "safety first."

It is very difficult to summarise Mr. Prosser's book, for he has already done his own summary so excellently, and if his standpoint is that of the employer, that position is never obtruded, and his comments on the slipshod methods of the past are sufficiently strong to guarantee a fair degree of impartiality. One reflection may be permitted, and that is that the extension of piece-wage to industries like engineering depends on the reduction of operations to their simplest elements, involving one or other of the systems of motion-study. Whether these are adopted or not, it is plain that a good deal of "scientific management"

—arrangements for regular supply of material, proper disposition of tools, economic planning of workshop, etc.—can and should be instituted, even if the other principles of Taylor and his followers are not accepted. One has an uneasy feeling that the "efficiency engineers" are aiming at the reduction of operatives to automata for the production of profits. It is interesting to observe that Mr. Prosser concludes his book with a chapter on profit-sharing, and that he holds that "some scheme of this nature alone can give the workman that broader view, that sense of industrial co-partnership, which the usual methods, however remunerative they may be, fail to inspire."

One has almost got tired of hearing it said that "the brotherhood of the trenches" should introduce a new ideal into industrial life, but the little pamphlet on the building industry, published under the auspices of the Garton Foundation, comes to revive our sick hopes. In 1914 the building trade was in a dangerous condition. "The rates of wages had failed to keep pace with the ever-increasing cost of living; the gulf between employers and operatives was growing wider—suspicion had become so ingrained and so strong that almost every proposal, no matter what its real merits, was only regarded as a tactical move in a great strategic struggle for mastery." A dispute about non-union labour led to a lock-out in London which was going to be extended to the whole country when the outbreak of war persuaded both sides to return very largely to the *status quo*. The "incredible futility and wastefulness" of the contest were brought home to some thoughtful men, and when a renewal of disputes was threatened in 1916 the young director of a large joinery works near Willesden, Mr. Sparkes, put proposals for the organisation of the whole industry before the Amalgamated Society of Carpenters and Joiners. They at once accepted the principle of a National Industrial Parliament for the Building Industry, and the National Associated Building Trades' Council followed their example. The masters next took it up, and in May, 1918, the first meeting of the Industrial Council for the Building Industry (Building Trades' Parliament) took place in the Central Hall, Westminster, and was supported by twenty-two trade unions and seventeen associations of employers. The object of the Council was to review the conditions affecting employers and employed so as to ensure the largest possible measure of joint action. Among the questions coming within its scope were: "(1) regularising production and employment; (2) the provision of a graduated scale of minimum rates designed to maintain real wages as nearly as possible on

a level throughout the country; (3) minimising the fluctuations of trade by intelligent anticipation and the augmentation of demand in slack periods; (7) the inclusion of all employers and workpeople in their respective associations; (8) the revision and improvement of the existing machinery for the settlement of differences; (10) securing to the workpeople a greater share in, and responsibility for, the determination and observance of the conditions under which their work is carried on; (12) ensuring to the workpeople the greatest possible security of earnings and employment." The collection and circulation of statistics and information, the promotion of research, the consideration and utilisation of inventions and improvements, and education were also among the objects.

The Council consists of 132 members, elected half by the employers' associations and half by the trade unions, and meets quarterly. The Administrative Committee has ten members from each side and meets monthly. There were already four district Conciliation Committees in existence and also Demarcation Committees for dealing with disputes between craft and craft; and both employers and operatives were organised in national craft associations and in local federations embracing the whole building industry within a given area. The Council has since proposed the establishment of craft industrial councils (like the Painters' National Joint Council) and regional industrial councils (as in Scotland). Works committees are to some extent in existence, but there are difficulties arising out of the shop stewards' movement. The East Lancashire Painters' and Decorators' Joint Council has adopted a rule that trade unionists shall only work for associated employers and that the latter shall only employ trade unionists. The North-Western Area Joint Council for the Building Trades has adopted uniform rates of wages for skilled craftsmen and labourers (four grades in each). The National Council has also during the past year had committees at work on resettlement and demobilisation, on education and apprenticeship, on safety and welfare, and on management and costs. The interim report of the last-mentioned committee is given in full. It proposes to set up committees, national and local, to regularise demand by accelerating new building enterprises in slack times and by advising their postponement in periods of congestion. These committees should also deal with the decasualisation of labour through works of afforestation, road-making, etc. In times of necessary unemployment the industry itself should maintain its unemployed by levying a fixed per-

centage on the pay-bills and refunding the costs of maintenance to the trade unions. Employer-managers should declare the salaries they regarded as due to them, subject to review by the employment committees, and a regular rate of interest should be allowed to capital. The surplus earnings of the industry should be pooled, publicly declared, and applied to the guarantee of interest on approved capital, loans for development, education and research, superannuation schemes, and replacement of approved capital lost through no fault of the management. The Council referred the report back for further examination by the Committee, and there we must for the present leave the most important and revolutionary experiment that has for many years been tried in British industry.

HENRY W. MACROSTY

The Labor Law of Maryland. By MALCOLM H. LAUCHHEIMER, Ph.D. Johns Hopkins University Studies. Series XXXVII. No. 2. (Baltimore: The Johns Hopkins Press. 1919. Pp. 166.)

THIS study deals with the legal status of the labour union in Maryland, the workmen's compensation law, the conditions of employment, the terms of employment, miscellaneous laws, and the administrative system, and has two general chapters on the problem of the labour law and the State in relation to labour. The difficulties of adjusting modern ideas about labour to the conditions in a State which is half agricultural and half industrial, where the courts are inclined by their training to lean "in the direction of the individualistic philosophy of freedom," where the administrative departments are staffed on the principle of giving the "plums" to political supporters, and where the application of constitutional law involves "some of the finest legal reasoning," are very clearly brought out by the author. The League of Nations has undertaken the task of harmonising industrial legislation in all manufacturing countries, but the problem is no less difficult within the United States, where the labour section of the League has been holding its first conference. To Western minds the constitutional law of the United States, and even more of some individual States within the Union, seems to pay an exaggerated respect to individual rights and individual freedom, and the "fine legal reasoning" that has been used to bring the police law in to limit *laissez faire* arouses more intellectual admiration than respect. "Maryland is an average American

State, so far as its labor law is concerned," with poor legislation for safety, sanitary inspection, and the terms of employment for adult men. The child labour law and the workmen's compensation law are "exemplary," and "the industrial disputes act and the other laws relating to the labor union are almost as good as could be hoped for." "The women's ten-hour law ranks lower than similar laws in many States, but, nevertheless, Maryland is above the average." One begins to understand the labour unrest in the great Western Republic, and Dr. Lauchheimer's monograph will well repay study.

HENRY W. MACROSTY

A Primer of National Finance. By HENRY HIGGS. (London: Methuen and Co. 1919. Pp. 168.)

THIS little book is the fit introducer of a series "dealing with the fundamental principles and method of political economy in a concise and simple manner." Historically, it may be remembered, economic study started with exposition of the art, which led naturally in turn to probing of the theory, of State finance; and it is now plainly evident that, if, as our author says, "our taxation has for many years been so small in comparison with our wealth that no great ability has been needed to enable the Government to pay its way," "the future," as he adds, "has in store for us problems of a more serious character." "To find the best solution will require all our wisdom" and "patriotism." If, indeed, economics has, in consequence of the war, "come into its own," as a recent writer has observed in a treatise upon currency, banking and trade, it is largely upon good finance that the solution of these and other problems hinges, and it is especially in this department that the general public seeks, and should receive, wise suggestion or apt instruction from the well informed. Mr. Higgs is rightly anxious to insist on the paramount duty incumbent at this moment as at all times on taxpayers to acquaint themselves with the principles and practice of central and local finance—with possibilities and impossibilities alike—for otherwise, he argues, governments are pushed to rash expenditure or forced to blind cheeseparing. But, although the "thorough study" of the "science of finance" may, as he demonstrates by the French example to which he alludes, require no less than "twelve bulky volumes" for its full exhibition, or "over 1,000 large octavo pages" for an "elementary treatise alone," he himself attempts no more in the present essay than "to give

some help to those who wish to understand the main facts of our own finance as it now is."

Enjoying, as he does, the advantage of long, close intimacy with actual administration, coupled with full precise command of authoritative literature, to both of which he has made notable personal contribution, he deals here in successive chapters, first, with "Financial Statistics," and then, under the three appropriate divisions of "Expenditure," "Revenue," and "Debt," with the outstanding features of our national finance. A chapter on local finance follows, and the survey of the subject is completed by an abridged report of the last Budget speech. That report takes a large share, amounting to about a third, of the whole book; but Mr. Higgs can claim as a set-off that his own previous remarks furnish the suitable key for the right understanding of this official statement, which in its turn illustrates forcibly what he has said; and we confess, for ourselves, that we rejoice that at this juncture the responsible high post should be filled by so sane and cool a Minister, who can approach calmly sobering reality and avoid discreetly the perilous snare of imaginative sensation. Appendices to Mr. Higgs's review supply pertinent statistics.

We have, we must own, some apprehension that his readers may not find in the early chapter on the pitfalls offered by the published figures a simplicity, of which the subject itself does not admit. But we do not see how he could well reconcile the dictates of his conscience with the omission of the *caveat* he enters against ignorant, perverse misunderstanding; and when once this *pons asinorum* has been safely crossed with the help of his strong hands, the remainder of the journey becomes as straightforward as it is agreeable. With lucid, terse and interesting discourse the knowledge we should all desire on each point is imparted, and we are duly instructed without risk of being bored. We feel the sure, easy touch of the acknowledged master who will not let the "trees" hide the "wood," placing always a just emphasis on what should be clearly distinguished. This "primer" sets, in most respects, we believe, a high model, for which we are accordingly grateful to Mr. Higgs.

L. L. PRICE

NOTES AND MEMORANDA

The Depreciation of the German Mark

A year ago I published in this Journal (December, 1918) an article on "Abnormal Deviations in International Exchanges," where I showed that one-sided interference between the trade of two countries must cause the rate of exchange to deviate from its purchasing power parity. Probably this is the most general and most important cause of a deviation from the purchasing power parity. Subsequent events have, however, shown that very marked deviations of this character may be called forth by other causes of a quite peculiar nature. In this respect the present depreciation of the German mark is very instructive.

It is difficult to give an exact measure of this depreciation. But it is so enormous that its existence cannot be doubted. The difficulty lies in the fact that nobody can tell what is at present the internal value of the mark or its purchasing power against commodities. The rise of prices has been, I think, much more irregular than, *e.g.*, in England or in Sweden. Some prices have run up very much while other prices remain at about their pre-war level; even between different parts of the country the difference in the rise of prices seems to be very great. Nor have we any reliable measure of the increase of the actual circulation within the country. German estimates put this increase at about 350 as against 100 before the war. As the country suffers from a severe shortage of commodities, the corresponding rise of prices should be estimated at something like 400 or 450. But these estimates are probably too low.

For the present purpose it is only necessary to find an upper limit for the probable inflation of the German mark. I think this limit may be put at, say, 600, as against 100 as pre-war standard. The mark should, then, have at present only a sixth of its former purchasing power against commodities within the country. A lower estimation seems hardly admissible.

The purchasing power must now be compared with that of another currency, say, *e.g.*, the Swedish crown. The Swedish inflation is probably at present represented very nearly by my figure for the relative increase of the circulation. This figure is,

for September, 307. Thus the German inflation should not be quite double the Swedish. If we take it at exactly double, the purchasing power parity between the countries should be half the pre-war parity, *i.e.*, about 45 Swedish crowns for 100 marks. Of course, this estimation is very approximative.

The present rate of exchange between the countries is, however, only about 15 Swedish crowns for 100 marks, and stands, therefore, at about a third of the purchasing power parity. Thus, with all allowance for the uncertainty of our estimation of the purchasing power parity, an enormous undervaluation of the mark as compared with the Swedish crown must be taken as established. The undervaluation of the mark in other currencies is not quite so great, so that the Swedish crown is generally overvalued in them.

That an undervaluation of a currency to this extent can take place is perhaps the most astonishing fact that war economics have hitherto brought forward. And it is of the greatest importance, theoretically as well as practically, that the causes of this phenomenon should be made quite clear. I think that in the German case some main causes can already be discerned with sufficient distinctness.

The first is the realisation of German marks at any price in order to get hold of foreign purchasing power and thus to be able to pay for necessary imports to Germany. Under ordinary circumstances an adverse balance of trade does not depress the exchange-value of a currency below its purchasing power parity. For the balance is paid, and must be paid, day by day by credits secured abroad. But when no such credits can be had, or cannot be had to a sufficient extent, and when, nevertheless, an import of necessaries is indispensable, the country can try to procure the foreign money which it needs by a sale of its own currency to speculators abroad who buy it in the hope of making a gain when the exchange is restored to a more normal level. Such sales are obviously possible only when substantial concessions are made in regard to price, and must therefore always have a very destructive influence on the exchanges of the country.

It seems fairly certain that Germany has been driven by the present circumstances to such sales on a considerable scale, and that local bodies, as well as the Central Government itself, have been among those who have demanded foreign money at almost any price.

With foreign exchanges many times as high as would correspond to the internal level of prices, import should generally be

impossible as a private business proposition. But a public body may even under such circumstances find itself obliged to buy certain necessities abroad, paying for them by any amount of its own currency, but selling them at home at the prevailing internal prices. By such measures a Government can clearly depress the exchange value of its currency more and more below the parity which corresponds to the purchasing power of this currency on the home market.

Of course, if the currency sold abroad reverts to the country and makes itself felt as actual purchasing power on the home market, a rise of the general level of prices is unavoidable. At the same time such a possibility of making profitable use of the currency would enhance its exchange value. Both these movements would tend to bring the exchanges nearer to their purchasing power parities, which will, therefore, always denote the real equilibrium. But if the price of the currency abroad is very low, the currency is probably held chiefly by speculators who look for a substantial rise in its price, and therefore hold their stocks of the currency. It is also possible that the country prevents such of its currency as is held abroad from being used as purchasing power on the home market, either by export prohibitions or by measures tending to enhance the prices of commodities for foreign buyers. All these factors are, in the case of Germany, actually operating against a natural adjustment between the internal purchasing power of the currency and its exchange value.

Another, perhaps still more important, cause of the abnormal depression of the German exchanges is the export of capital which has been called forth by the extraordinary taxation of capital planned by the Federal Government. The flight of capital seems to a great extent to have taken the form of an export of German bank-notes. It is time that this export was prohibited, but as Germany cannot control effectively her western frontier, a very considerable export of bank-notes is going on. These notes are sold on foreign markets, and such sales contribute no doubt very considerably to the unnatural depression of the German exchanges. Indeed, nobody can wonder that the exchanges of a country are driven below the purchasing power parity if the fear of confiscatory taxation works as a motive for selling out the currency of the country at any price. Perhaps the experience of Germany in this matter may serve as a lesson to other nations.

It is known that Belgium and France possess very big amounts of German bank-notes, probably together about ten milliards. The realisation of such sums is, of course, quite out

of question, as it would press down the international value of the mark to almost nothing. Some sort of agreement must therefore be made by which the notes will be exchanged against long-time credits in one form or other. In the meantime the existence of these big stocks of bank-notes may be supposed to exert a certain depressing influence on the German exchanges.

For the recovery of the German exchanges, as well as of German finances generally, it is obviously of some importance that Germany should avoid all imports of luxuries. The payment of indemnity involves the reduction of the consumption of the people for many years to the barest necessities. Imports of unnecessary goods should therefore either be prohibited or reduced to a minimum by heavy custom duties. The fact that the German Government has no effective control over the western frontier makes a sufficiently restrictive fiscal policy impossible. It seems to be an economic paradox that the same countries which claim a huge indemnity should be anxious to provide the German people with the greatest possible amount of their luxuries. The present import of unnecessary articles over the western German frontier is without doubt a factor of considerable influence in the continual depression of the German currency on foreign markets and, of course, also a factor which weakens the paying capacity of the country.

The effects of the extraordinarily low valuation of the German mark abroad deserve to be noticed. Every depression of the exchanges of a country beneath the purchasing power parities means a bonus for the export of the country and at the same time a hindrance to its imports. Both these effects are felt by traders of other countries as a great annoyance. The export bounties given by an overvaluation of foreign currencies over their purchasing power parities make far wider opportunities for dumping than any measures which a direct dumping policy could invent. The neighbours of Germany will probably, in the very near future, have ample opportunity to study this effect of the unnatural situation of the exchanges. At the same time trades which have been working for export to Germany will gain experience of the almost insurmountable difficulties caused by the depression of the mark beneath its purchasing power parity.

It is often believed that the export bonus at least should be an advantage for the country itself. But Germany probably feels that she gets too little in foreign money for what she has to sell, and therefore tries to force foreigners to pay additional prices for what they buy. Theoretically such a policy might be condemned,

as it clearly tends to depress the exchange value of the mark still more. If other countries could buy freely on the German market at the present prices, the exchange value of the mark would, as stated above, increase rapidly. Such a policy is, however, hardly possible for Germany for the time being. Besides, Germany has not sufficient to sell. In some essential commodities she is so short that she must prohibit every export; for with the present abnormal exchanges it would pay to export almost everything, even food, from Germany.

A peculiar effect of the low exchange value of the German money is that foreigners are beginning to buy up industrial shares on German bourses, and that therefore the prices of such shares are rising rapidly. Again, in Sweden, whose currency is perhaps the most overvalued of all, the share market suffers from a quite exceptional depression. It seems worth while to study the connection between these movements somewhat more closely.

It is, without doubt, in the interests of the whole world that abnormal deviations of the rates of exchanges should be avoided and that the exchanges, as soon as possible, should be brought into accordance with the internal values of the different currencies. It is vain to hope for an economic reconstruction of the world so long as the present confusion in the world's monetary conditions is continued. All countries must unite their best efforts in order to put the world's monetary affairs on a sound base. For this purpose it is essential that the exchanges should be normal, that is to say, that they should coincide with the purchasing power parities. In the case of Germany this end cannot be attained without the collaboration of the Powers who control her finance, and specially her western frontier. But these Powers also have the greatest material interest in a recovery of German exchange.

The deviation from the purchasing power parity is especially great in respect of the mark. The present situation of the German currency, therefore, affords the best opportunity for a study of the causes and effects of such deviations. Probably we can learn from this case much that is applicable in other cases where the deviations of the exchanges from their purchasing power parities are much less and their effects consequently not so clear. In this way we may perhaps hope to get a deeper insight in one of the most intricate, most actual, and practically most important chapters of economic science.

G. CASSEL

Djursholm, Sweden, October, 1919.

The Deviation of Exchanges

In Nos. 101 and 103 of this Journal Prof. Cassel has contended that the rates of exchange in a country are expressive of the internal value of the money, and for that reason are determined by the quotient of the inflation in that country; the inflation being proportional to the increase of the paper-money. In a contribution to No. 112 of this Journal, Prof. Cassel has amplified his view in this way, that a country which has an *export-surplus* might see its money *go up* in value in foreign parts considerably above the rate which would correspond to the internal value of this money as expressed by its purchasing power.

This point is of great importance, as Prof. Cassel's latter thesis corresponds with the common view about the fall of the belligerents' exchanges, especially the German exchange in Holland, which is attributed to an import-surplus on the side of Germany.

The present article intends to show the fallacy of this view, and to elucidate the fall of the exchanges in a way which is different from both Prof. Cassel's former and his later article.

According to the current view, an import-surplus lowers the rates of exchange; on the other hand, borrowing abroad improves the rates of a country. Now, one or the other of these views must be wrong, as borrowing abroad (by obtaining foreign loans or private credits) and an import-surplus are both identical, being two aspects of the same fact.

Suppose this to be the normal balance of payments or claims of a country:

Imports, freights, interests ...	2,000	Exports, gold exports	2,000

Suppose this country increases its imports without increasing its exports, we may then get the following results:

Imports, etc.	3,000	Exports, etc	2,000
		Borrowed abroad (foreign loans and private credits) ...	1,000

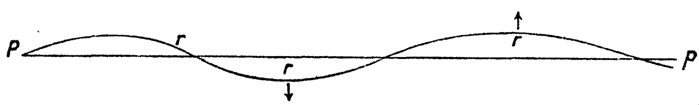
The exact amount by which the *imports*, etc., *exceed* the *exports*, etc., must be borrowed abroad. This proves the fallacy of the statement that a foreign loan and an import-surplus have the opposite results.

(There is some lapse of time between the birth of a claim and its maturity. I do not enter into this detail as it is of no importance to the present investigation; it does not alter the fact that every import immediately gives rise to a claim; its only

result being that the effect may be somewhat retarded; it does not change the matter in principle.)

The current contention is that the money of a country *whose imports increase* depreciates; that the exchange of this country falls. This is true, but there is some misunderstanding between this case and the former.

In pre-war times with a fixed parity, *i.e.* the relation between the value of the currency-units being constant, the rates of exchange can be described by the following diagram:



P—p being the parity, *r* being the rate.

The rate of exchange (the market value of the money) always tends towards the parity (the normal value of the money), fluctuates about it.

The cause of the fluctuation of the rate is the fluctuation of trade. With a given output, only a certain amount of export and import is possible; any import or export in excess of this amount will prove a loss, unless the rate changes. Yet in practice it is impossible to keep trade quite constant. Suppose the import obligations being the first to pass the norm, the surplus must then be paid by exports. The corresponding export-surplus, however, can only be brought about by a fall of exchange, because otherwise it would bring a loss; the importer will have to bear this loss. If, on the other hand, the export obligations are the first to pass the norm, the exporters will have to bear the loss, and the whole process will go the opposite way. As soon as in this way the balance between imports and exports has been restored on a lower level of exchanges, a reaction sets in, as imports will decrease in consequence of the low rate, and exchange will rise again.

This proves that exchange falls when *imports expand beyond the normal amount, and must be paid by an increase of the exports beyond the normal amount;* moreover, that this fall is only of a temporary nature, as it represents a deviation from the parity.

During the war we have witnessed *big import-surpluses*, which were *not* paid by exports, but met by foreign credits and loans, or sales of foreign shares, and we have also seen a *permanent* fall of some exchanges. This is obviously quite another case. In the former case there were no import *surpluses*, here there are.

An *expansion of imports* means quite another thing than an *import-surplus*, hence the misunderstanding.

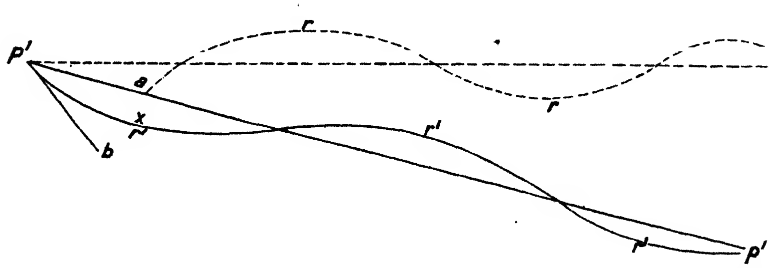
Expressing ourselves in terms of precision, we should sav that the exchange of a country falls, not by the expansion of imports, but only at the moment at which this import is counterbalanced by a corresponding export, viz., by the counterbalancing-expansion of export.

Why then did exchanges fall if it could not be through these import-surpluses?

It must be kept in view that there is at present no fixed parity between the different currencies. Now, as the rate always tends towards the parity, it stands to reason that a constantly declining rate can only be caused by a declining parity.

According to the quantity theory, which in its main tendency is irrefutable, the value of a currency-unit not fixed to a standard-metal is chiefly determined by the extent of the circulation (including cheques and other money-saving instruments and methods) and the quantity of the consumption-stock.

It is obvious that both these agents have had a share in depreciating the belligerents' money, specially the German currency. The German circulation has swollen to a much greater extent than the Dutch one; the German production as well as the German stock have suffered to a much greater extent than the Dutch one; the exchange on Holland would have depreciated still more if Holland had not been obliged to keep a large stock of unproductive gold instead of productive capital or commodities. It may be useful to put the core of our argument in a second diagram.



P'—p' is the parity, r' are the rates. ($P'Q$ was the parity in pre-war times.)

The parity itself has fallen. *The mistake made by the current explanation is, that the beginning of P'—p', i.e. P'—a, is taken for the beginning of a fluctuating rate r on a parity P'—Q.* The fall of exchanges we have witnessed was not a fall below parity (*i.e.* a market rate below the normal rate), but a fallen parity (a fallen normal rate).

If we call to-day the German exchange "low," this expres-

sion has only a historical meaning. It means that the parity between the two currencies is lower than it used to be; but whether it be low in the other sense, *i.e.* whether the rate be below parity, no one knows, as the parity is an invisible one—a purchasing power parity, as Prof. Cassel rightly calls it. This makes speculations in exchange very hazardous to-day. If the rate stands at x, the parity may lie, *e.g.* in x itself, in a or in b.

The depreciation of the German currency has acted on the exchange in the following way:

A depreciation of the currency means an advance in prices. As soon as this rise had reached the prices of export-commodities, the direct consequence must be a fall of exchange. What used to cost 100 marks in Germany now costs, say, 200 marks, yet there is no reason for an increased price in Holland, suppose the price there is the same as before, say, 59 guilders. For his bill of 59 guilders the exporter wants to get his 200 marks instead of 100, and he can get them, as the importer can make 200 marks for what costs him 59 guilders in Holland. This process is seen by the bankers in the shape of an increased demand for Dutch exchange. Exporters hold back; importers will make haste until the new parity, 59 guilders = 200 marks, is reached. The import-surpluses have nothing to do with it. As they became apparent at the same time as the fall of exchange, the conclusion was drawn that the latter was caused by the former. The actual occurrences were not subjected to close analysis, and, on the face of it, the explanation seemed to be satisfactory. The real connection was this, that both—the fall of exchange and the import-surpluses (brought about by means of credits, loans and sales of shares)—were caused by the decline of the homestock.

By borrowing, the belligerents were enabled to restore their consumption-stock at the cost of their capital-stock. The foreign loan lays an interest-paying burden on the capital-stock. But for the time being the consumption-stock is increased, and this brings about the rise of exchange as it raises the value of the home money. The bankers' view that the rise is brought about by the demand of exchange only takes the external aspect of the matter in consideration. This also explains why the American exchange has fallen against Holland and has not risen against England. The United States have exported their consumption-stock by lending abroad and redeeming former loans, and so strengthened their capital-stock at the cost of their consumption-stock; the latter has diminished, from a relative point of view.

I agree with Prof. Cassel that the (par) rate of exchange is

an expression of the money-value, and therefore determined by the quotient of the different inflations; but I disagree from him when he says that it must be proportional to the increase of the paper-money, and I do so for two reasons.

First, because the paper-money is only part of the currency of a country; secondly, because the increase of the currency is only one side of the inflation. The other side is the reduction of the consumption-stock. For example, suppose there was a money-circulation of 1,000. This circulation has doubled; according to Prof. Cassel, the inflation would be expressed by the number *2*.

But Prof. Cassel has not taken into consideration that payments without money used to be effected to the amount of, say, 1,000, which has remained constant, and the consumption-stock has been reduced to, say, $\frac{1}{2}$ of what it was. Therefore, the inflation in reality will be expressed by the number ($\frac{3}{2} \times 2$, or) *3*.

In his last contribution Prof. Cassel has made a very valuable remark, which seems to refute my argument. Some rates have not been in correspondence with the internal value of the money as it was expressed by its purchasing power in the country. *Prof. Cassel finds the explanation in the import-surpluses, and* means to say that an export-surplus made the money-value of a country go up.

I have explained why I cannot accept this interpretation. In my opinion, an export surplus has the tendency of deteriorating the money of the country. I have to look for an explanation elsewhere. First, as Prof. Cassel himself grants, index numbers are never of sufficient accuracy to allow of the relative price-level being deduced therefrom with exactitude. But there is a second fact of far greater importance.

Price-level is only an average conception. Prices never move uniformly; by the same inflation, even in normal times, the price-level in two countries will never react exactly in the same way, yet it will react in *approximately* the same way. But the impediments to trade have brought about that we have to divide the price-level in each country in two sections: one section represents the prices of those commodities which are still an object of international trade, the other the prices of those goods which cannot be exported or imported. These latter prices move quite independently in every country. If we want to measure the fall of exchange by the index number, we can only use the prices of the former commodities. This may answer for the anomaly which Prof. Cassel observed.

Some people have a not very clear notion that rates will rise again spontaneously in the same way as they have fallen. Others mean that this will happen when the import-surpluses are counterbalanced by export-surpluses, *i.e.* when all foreign credits and loans are refunded.

Our investigation leads to the result that exchange can only be restored by the reversal of the processes which have depreciated it: by a reduction of the circulation and a recovering of the productive power, and consequently of the consumption-stock, both to such an extent as to restore the former relations towards the money of those countries which did not experience a depreciation of their own money.

These are the only means beside gold exports of a certain nature.

Export-surpluses (*i.e.* refunding of loans) would act precisely in the wrong way, and must not be effected before the capital-stock is strengthened.

Neither has the credit of the State anything to do with the rates of exchange, nor can any artificial expedients be of any avail. Speculation and psychological agents can only answer for temporary fluctuations. On the other hand, gold taken from the gold-reserves will improve the rate. The gold-reserves may be compared to a treasure hidden in the soil. It is inactive in every way so long as it is hidden; but as soon as it is exported its value is added to the stock of commodities by the corresponding import. The export of gold, which has first to be produced, however, plays the same part with regard to rates as any other export commodity. It would be of no use to strain this production beyond its natural limits with a view of improving rates; on the other hand, it would only be logical to raise the price of gold in accordance with the fall of the sovereign.

The argument also tends to show the fallacy of the view that the present low exchange involves an export premium. An exchange below parity involves an export-premium, but it is immaterial to trade whether the parity between German and Dutch money is 60 or 25 cts. If a guilder fetches four marks instead of one and a half, this is not a gain of two marks and a half for the man who possesses the guilder, but four marks now fetch as many commodities as formerly one mark and a half. Yet the wrong view is held by many, and forms a dangerous weapon in the hands of protectionists.

To resume the main argument:

The present fall of exchanges involves a fall of the parity,

and is brought about by the extension of the currency and the reduction of production.

The import-surpluses are brought about by foreign loans, etc., and temporarily improve exchanges.

The way to restore exchanges will be to reduce circulation and recover production, and eventually to export the gold from the reserve.

E. C. VAN DORP

OFFICIAL PAPERS.

Royal Commission on Agriculture. Minutes of Evidence, Vols. I., II. and III, 5th August to 24th September, 1919.

An enquiry into the economic prospects of the agricultural industry in Great Britain. Prices, cost of production, wages and hours of labour.

Royal Commission on the Income Tax. Second, third and fourth instalments of Minutes of Evidence with Appendices. 2*s*., 3*s*. and 3*s*. 6*d*.

Summary Statement of the Legislative Provisions for the Prevention of Dumping in . . . Canada, . . . Australia, . . . South Africa and the United States [Cd. 265.]

Coal Industry Commission Reports and Minutes of Evidence on the First Stage of the Inquiry. [Cd. 359.] 3*s*. 6*d*.

. . . *On the Second Stage.* [Cd. 360.] 7*s*.

Ministry of Labour: Minutes of Evidence Taken before the Committee of Inquiry into the Scheme of Out-of-work Donation. [Cd. 407.]

Report of Select Committee on High Prices and Profits. [H.C. 166.] 5½*d*.

Prices and Wages in India. Calcutta, Department of Statistics. 3*s*.

Index Numbers of Indian Prices, 1861-1918. Calcutta, Department of Statistics. 1*s*. 3*d*.

OFFICIAL FIGURES RELATING TO INFLATION.

Statements of Production, Price Movements and Currency Expansion in Certain Countries. [Cd. 434.] 1*d.*

The tables relating to production are rather perfunctory, and are not complete enough to allow conclusions to be drawn from them. But those which compare the increase in the volume of currency with the increase in prices and the fluctuations in the foreign exchanges are very striking. These tables are given below, and also, in the case of the United Kingdom and the United States, the details on which the estimation of the changes in the volume of currency has been based:—

Comparison of Expansion in Currency with rise in Prices.

	Currency of all kinds. 1913=100.	Wholesale prices. 1913=100.	Retail prices of food. 1914=100.
United States (May, 1919) ..	173	206·0	181
Japan (May, 1919)	223	214·6	—
Switzerland (June, 1919) ..	230	—	250
Denmark (July, 1919) ..	240	—	212
United Kingdom (August, 1919)	244	257·2	217
Netherlands (September, 1919)	270	—	203
Sweden (April, 1919) ..	275	339·0	336
Norway (May, 1919)	305	—	271
France (June, 1919)	365	330·0 ..	Paris, 263; .. other towns, 293
Italy (April, 1919)	440	329·9	281

Comparison of Expansion of Currency with rates of exchange on London.

—	Expansion of currency of all kinds.		Rates of exchange on London. Per cent. of parity.	
	Compared with 1913. 1913=100.	Proportionate figures. U.K.=100.	At date shown in Col. 1.	At 7th November, 1919.
United States (August, 1919)	171	70	86·4	85·3
Spain (Sept., 1919)	185	76	87·0	84·1
Japan (May, 1919)	223	91	92·3	84·5
Switzerland (Sept., 1919) ..	230	94	93·0	91·5
Denmark (August, 1919) ..	240	98	106·7	107·5
United Kingdom	244	100	—	—
Netherlands (Sept., 1919) ..	270	111	92·2	90·8
Sweden (Sept., 1919) ..	275	113	94·1	97·2
Norway (Aug., 1919) ..	305	125	100·9	100·9
France (Sept., 1919) ..	375	153	137·6	148·0
Italy (May, 1919)	435	178	150·4	183·5
Germany (Oct., 1919) ..	875	359	435·1	707·3

	£1,000's.							
	1913.	1914.	1915.	1916.	1917.	1918.	1919 (last week of month stated).	
United States—			At 1st	July.			May.	August.
Gold Coin	126,750	127,405	122,945	132,761	143,870	232,099	229,220	226,003
Silver Coin, Standard Dollars ..	15,027	14,646	13,468	13,836	14,964	16,151	17,039	16,898
Subsidiary Silver	32,179	33,326	33,180	35,719	40,386	45,203	48,201	48,579
Gold Certificates	209,166	213,781	223,510	294,547	362,001	170,490	120,997	91,572
Silver Certificates	97,735	99,709	100,410	102,065	99,413	79,002	37,425	33,422
United States Notes	70,253	70,384	69,238	71,191	69,992	70,842	69,631	69,068
National Bank Notes	149,115	148,996	163,623	149,875	145,302	146,470	137,980	137,703
Treasury Notes	554	506	468	437	410	386	366	359
Federal Reserve Notes	—	—	16,745	36,063	113,419	356,891	522,120	533,659
Federal Reserve Bank Notes ..	—	—	—	1,867	2,645	3,179	32,493	39,326
Total	700,779	708,753	743,587	838,361	992,412	1,120,713	1,215,472	1,196,589

The above figures are from United States Official sources. Gold in circulation includes gold held by Federal Reserve Banks against their deposits, but not gold held against Federal Reserve Notes.

	1913.	1914.	1915.	1916.	1917.	1918.	1919	
United Kingdom—							April.	August.
Currency Notes	—	38,478	103,125	150,144	212,782	323,241	348,340	330,952
Bank of England Notes	29,608	36,139	35,309	39,676	46,591	70,190	77,162	79,800

For the total of coin and notes in circulation in the United Kingdom, the figures used have been those given by the Chancellor of the Exchequer in his speech introducing the Budget on 30th April, 1919, viz., £214,000,000 before the war and £540,000,000 at the latest date for which information was then available. Recorded changes in Note circulation since April have been taken into account.

The greater part of the increase in Scotch and Irish Bank Notes is covered by Currency Notes held in reserve by the banks of issue, so that duplication occurs between these items. Similarly Bank of England Notes to the value of £250,000 formed part of the reserve against issues of Currency Notes.

The total of the authorised issues of the Scotch and Irish Banks is £9,050,844. The actual issues have been as follows :—

	1913.	1914.	1915.	1916.	1917.	1918.	1919 April.	1919 August.
Scotch Bank Notes	7,782	9,743	12,957	15,962	19,865	26,152	26,616	26,707
Irish Bank Notes	8,456	11,870	16,131	20,371	23,821	31,929	31,471	28,787

The figures for Scotch and Irish Banks are averages for four weeks, those for April and August, 1919, being for the periods ended 19th April and 6th September, respectively.

The actual statistical relation between volume of currency, prices, and rates of exchange is in so close a conformity with the predictions of theory, as to surprise even theorists, having regard to the many disturbing factors of the present time. The only really anomalous case—that of Germany—is dealt with by Professor Cassel in his article above. J. M. K.

The New Zealand Coal Industry

At the present time there is an acute shortage of coal in New Zealand, and the Board of Trade has, at the request of the Government, made an investigation of the industry. Unfortunately the evidence had to be taken in confidence, and there is almost an air of mystery in the care with which the Report disguises names and facts. No information is given as to the ownership of the mines, or their connection with the shipping companies, though there is a persistent belief in New Zealand that this connection is very close.

There is, however, much valuable information to be gleaned from the Report. The cost of winning coal varies greatly (from 10s. 6d. to 23s. 4d. per ton), and the war-increases in costs vary just as much. The f.o.b. price of coal in 1918 varied from 11s. 5d. to 24s. per ton, and the two State mines show prices averaging 15s. 6d. and 16s. 2d., thus coming fifth and sixth when the fourteen mines quoted are arranged in order of cheapness. The average pithead cost is given as 15s. 4d. per ton (of which 7s. 1d. goes in wages), but this figure does not include railage to the ports.

The costs of distribution are analysed in great detail for several centres, and the system of distribution is severely criticised as leading to excessive and wasteful competition. Retail prices vary greatly, but in 1918 house-coal averaged 50s. to 60s. per ton. Transport by sea and rail contributes about one-third of this price, and the war-increases are largely due to transport charges, to sea-freights more than railway rates.

The analysis of profits is not very convincing. Both the State Mines show a profit, one of 2s. 6d. and the other of 4s. 11d. per ton. The declared profits on capital invested privately vary from *nil* to 10 per cent., but the tables which were to have shown the real gains to shareholders are left blank. The prices disclose profits averaging 4½ to 5½ per cent. on the cost of production; but there is nothing to show the average rate on capital invested. The nearest approach is the rate of 5 per cent. on the nominal paid-up capital, shown by the excess of profits over losses in the balance-sheets of ten mines during the period 1913-18. The

profits made by shipping companies are apparently larger, as the Report justifies them by saying that even larger profits could have been obtained elsewhere; but no figures are given. The conclusion is drawn that profits are unduly low in the industry; but the facts given in support of that conclusion are extremely unconvincing. The variation in costs leading to large profits for certain mines, while others make losses, is evident from the figures disclosed, though the point is not emphasised.

During the war period wage-rates were advanced 16½ per cent.; but, owing to increased output, the actual earnings rose by 30 per cent. The cost of living rose 35 per cent. Actual earnings vary greatly, but in 1918 hewers seem to average about 90s. per week. The conditions of a miner's life are not very pleasant, and, in particular, housing is worse than one had thought possible in New Zealand. The Report contains a bitter pill for people who are wont to boast of New Zealand housing, in the shape of twelve pages of actual photographs of mining townships.

The Board finally comes to the conclusion that some form of nationalisation is urgently necessary, but rejects direct State ownership and management. It proposes a Dominion Coal Board of five members, the President appointed by the Crown, two representatives by the stockholders and two by the employees. This board is to take over the existing companies (and State mines) at a valuation and issue to the existing shareholders stock equivalent to the market value of their shares. Stockholders are guaranteed four per cent. on their paid-up capital, and any excess will be divided as a risk-rate to stock-holders and bonuses to them and the employees. Housing is to be improved by levying threepence per ton on all coal raised or imported, and the Coal Board is recommended to undertake the distribution of coal, including transport by sea.

The Dominion Coal Board will need to be supplemented by some organisation of Pit Committees and District Councils, and if so extended the scheme should go a long way toward obtaining the economies of large-scale production without the prospect of political inefficiency, and should at the same time meet the legitimate demand of the workmen for a share in the control of the industry.

J. B. CONDLIFFE

The British Association.

Bournemouth, September 9th–12th.

Section F (Economics and Statistics).

President of Section F: Sir Hugh Bell, Bart., D.L., J.P.
Recorder of Section F: C. R. Fay.

The President in his address surveyed the industrial and financial conditions accompanying the closing years of the war and the first months of peace. He indicated the seriousness of the economic situation and the necessity of facing facts. "We must," he said, "obtain a larger product, if we are to have more to divide. Restrictions in output, whether produced by the act of the Legislature, the will of the worker, or (let us add) the hindrance of a tariff, will fail to effect this. None of the short cuts now proposed will lead us to our goal. . . . For my part, I rely on the common sense of my fellow-countrymen. The speedy abolition of all artificial prices, by which we shall get to know the real cost of what we buy, will be a great help. We may hope that on this will follow an earnest desire on the part of all to do their best for the common weal—convinced that on this intelligent altruism we are best serving our own ends."

The programme of the Section was grouped around three topics.

(1) *Capital and Labour.*

The Right Hon. F. Huth Jackson traced the origin, growth and working of the National Alliance of Employers and Employed. Mr. T. B. Johnston, of Bristol, spoke on "Industrial Councils and their Possibilities," recommending the erection of Whitley Councils in all staple industries, and submitting figures of comparative costs in the pottery trade. He argued that publicity was essential to industrial harmony and a correct fiscal policy. The Hon. Sir Charles Wade, K.C., emphasised the same point from Australian experience. The compulsory fixing of prices in Australia "met with some success during the war, but must not be taken as a guide for peace conditions." Rejecting wholesale nationalisation as impracticable, he believed the true remedy to lie in: "Public investigation of the costs of, and profits from, operations which are suspected of profiteering, by means of a tribunal of investigation with compulsory powers of extracting information and giving full publicity to the inquiry. Trusts and profiteers abhor the daylight."

Sir Hugh Bell, himself a big employer of labour, reviewed the

discussion. He put in a strong plea for the interests of the consumer and for free trade, pointing out the danger of employers and employed reaching an agreement as to price and output which penalised consumers.

The Labour problem again came under review at the concluding session, when Professor Scott Miss Grier and Professor Kirkaldy presented the Report of the Committee on "The Replacement of Men by Women in Industry." The work of this Committee during the war played an important part in the negotiations which led up to the institution of the Whitley Councils; and it may be noted here that the several Reports of this Committee, and the complementary Reports on Currency and Finance, are about to be completed (the Association having made grants for this purpose for the current year) and reissued in more compact form. These will be of exceptional value to economists who have been on service during the war and therefore unable to watch current economic events.

(2) *Transportation.*

The Section was unfortunate in losing an opening paper from Sir George Gibb, owing to a breakdown in health, and wishes him a speedy recovery. Mr. W. H. Acworth, however, filled the gap with a vigorous exposition of Transport Policy, delivered with characteristic wit. He foreshadowed the improvements possible in our transport system without recourse to the hazard of Nationalisation. Lieut.-Colonel Sir J. G. Beharrel, D.S.O., followed with a paper on the "Value of Full and Accurate Statistics as shown under Emergency Conditions in the Transportation Service in France." It was received with delight by every ex-service man, for the latter knows by bitter experience the damnableness of the doctrine that England succeeds by muddling through. The truth is that England succeeds in spite of her muddlers and pays a heavy penalty for her muddling. Colonel Beharrel showed the notable economies achieved by the application of accurate statistics to the organisation of the Transport Service in the B.E.F. Finally, Sir Charles Bright sketched the importance of the organisation within the Empire of communications by cable, wireless and aeroplane.

(3) *Taxation and Currency.*

This group of papers produced the outstanding contributions of the meeting: Dr. J. C. Stamp, C.B.E., "The Special Taxation of Business Profits in Relation to the Present Position of National Finance"; and Mr. R. G. Hawtrey, "The Gold

Standard." It may be said without fear of contradiction that these two papers will be landmarks in the work of Section F. They are both printed above in this issue of THE ECONOMIC JOURNAL.

The British Association has of recent years urged sections to hold joint meetings; and Section F accordingly held two such meetings :—

(*a*) With Section I—Physiology. Dr. H. M. Vernon opened with "The Influence of the Six-Hour Day on Industrial Efficiency and Fatigue." The representatives from Section F were Miss C. Smith Rossie (Physiological Fatigue and Village Meetings Hall in Denmark and the Continent) and Mr. P. Sargant Florence (American experience). We must congratulate America on Cambridge's loss. Mr. Florence made clear the difference between amateur and scientific investigation. Time only permitted him to touch on the fringe of his subject, but he gave as an example the results yielded by an intensive long period study of the effects on different classes of workers of an eight-hour and a ten-hour day. Students of these problems must keep their eyes open for the forthcoming official report by the Department to which Mr. Florence belongs.

(*b*) With Section L—Education. The subject for discussion was "Business and Education." The Recorder for Section F spoke on the "Task of the Universities." He suggested that the principles of military training elaborated by the British Army in France are very relevant to this problem. It is to be hoped that this subject will receive further and fuller treatment when the Association meets at a big industrial centre.

Why should readers of this JOURNAL attend the meetings of this Association? For three reasons :—

(1) To hear good papers.

(2) To learn how to say in five minutes what without practice they will take twenty minutes to say.

(3)—the most important of all—To make liaison with fellow-teachers, fellow-students and allies in the world of industry and labour.

Discussion, formal and informal, personal contact, conversation between old and young, between the man of letters and the man of business, are the strongest weapons in the armoury of higher education.

Next year the Association meets at Cardiff; the year following at Edinburgh.

C. R. FAY

OBITUARY.

GUSTAV COHN

NEWS has come to hand from Göttingen of the death there in September last of Gustav Cohn, Professor of Political Economy at the University. For many years Professor Cohn was a correspondent of the Royal Economic Society, and he was one of the few German economists who were acquainted with conditions in England. He spent some time here in 1873, publishing a learned treatise on English railway policy (*Untersuchungen über die englische Eisenbahnpolitik*, 2 vols., Leipzig, 1874–75), and since then he has striven to keep in touch with the trend of affairs in England. In 1883 he published a supplementary volume on English railway administration (*Die englische Eisenbahnpolitik der letzten* 10 *Jahre*, Leipzig, 1883).

Cohn was born on December 12th, 1840, in Marienwerder, in West Prussia; he attended the Universities of Berlin and Jena; and in March, 1869, he began lecturing at Heidelberg. In September of the same year he accepted a call to the Polytechnic at Riga, and here he spent three years. His teaching work was interrupted by his journey to England, and in 1875 he proceeded to the Polytechnic at Zürich, remaining in Switzerland nine years and gradually building up a reputation as an inspiring teacher. In 1884 he was appointed to the Chair of Political Economy at Göttingen, and here he spent the rest of his life.

Cohn was a prolific writer. His best-known work is his general treatise on Economics in three volumes (*System der Nationalökonomie. Ein Lesebuch für Studierende*), the second, on Public Finance, being especially useful. Cohn devoted much attention to financial questions; in 1892 he was appointed a member of the Imperial Commission on the Stock Exchange, and in 1895 he published a volume on this topic (*Beiträge zur deutschen Börsenreform*, Leipzig, 1895). He has further to his credit a large number of essays in periodical publications, and he was among those who were greatly interested in the enfranchisement of women. With his usual thoroughness he probed deep into the history of the movement, and wrote what was considered a standard work on it (*Die deutsche Frauenbewegung. Eine Betrachtung über deren Entwickelung und Ziele*, Berlin, 1896).

M. EPSTEIN

Alexander Macindoe

The following note on the late Mr. Macindoe has been received from a Glasgow correspondent: "The late Alexander Macindoe was one of those valuable men who act as liaison officers between professional economists and business men. At the outbreak of war he was Chairman of the Glasgow Stock Exchange, and as such took part in the conferences between the Government and the stock exchanges of the country. Justly scouting the exaggerated belief in the power of speculation to affect prices, he remarked with humour that the Government forbade speculation on the stock exchange because it would depress the price of stocks and on the metal exchanges because it would raise the price of metals. He was a competent, all-round economist of the classical school, if not pre-classical, as he seemed to consider that departures from Adam Smith were generally for the worse, but he was mainly interested in currency questions. A strong supporter of the gold standard, he opposed the closing of the Indian mints.[1] He early realised the effect on prices of the increased gold output,[2] and acted upon his beliefs in his advice to clients. In this and other respects he had a reputation on the Glasgow Stock Exchange for putting his economic equipment to good use in business. His last paper was a protest against the over-issue of Treasury Notes.[3] He brought this subject also before the Glasgow Chamber of Commerce, and was examined as a witness by Lord Cunliffe's Committee. He was well documented in the history and literature of currency questions, with many a modern instance culled from his own business experience or observation. I can single out only two of the qualities which give value to his pamphlets, on the one hand an extreme fairness, caution and modesty in advancing what is doubtful or unproved, on the other an unflinching grasp of economic principle. In this last it seems to me that instructed amateurs of his type often surpass the professional economist. His loss is much more than a local one."

[1] *The Report of Lord Herschell's Committee on Indian Currency.* This and the other pamphlets were from papers delivered to the Royal Philosophical Society of Glasgow or its Economic Science Section, and are published by James Maclehose and Sons, Glasgow.

[2] *The Increasing Production of Gold and its Effects upon Prices.*

[3] *The High Prices of Commodities and the Inflation of the Currency.*

Current Topics

The following have been elected to membership of the Royal Economic Society :—

Adhara, C.
Bangay, C. S.
Birley, O.
Brigden, J. B. (1920)
Buckley, W. H. (1920)
Butler, H. G.
Cumming, J. G. (1920)
Davies, J.
Dean, W. H.
Gairdner, A. C. D. (life)
Guha, G. S.
Ham, W.
Hedgman, E. (1920)
Irwin, S. J.
Josyer, G. R. (1920)
Legge, Major A. E. J. (1920)
Macfie, R. A. Scott (life)
Morris, H.
Minton, H. D. L. (life)
Minty, L. Le M.
Pollard, A. F. (life)
Rashad, I.
Rawlinson, A. T.
Robinson, J. C. (life)
Schlesinger, Dr. Karl
Smiddy, Prof. T. A. (1920)
Smith, Prof. J. G. (1920)
Stone, J. E.
Strakosch, H. (life)
Walker, H.
Watson, Rev. A. R. A.
Worsfold, V. G. (life)

The issues of The Economic Journal for June, 1918, and June, 1919, are now out of print. As a few additional copies are urgently required for the purpose of completing sets, the Secretary of the Royal Economic Society would be much obliged if any Fellows who can spare their copies of these issues would return them to the Assistant Secretary, Mr. S. J. Buttress, 6 Humberstone Road, Cambridge. A payment of 5*s*. will be made for each copy so returned.

Two publications have lately made their appearance which are of importance for those who wish to keep in touch with economic developments in Europe. The first of these is the *Monthly Bulletin of Statistics*, issued under the auspices of the Supreme Economic Council. Copies can be obtained through the Stationery Office at a price of 9*d*. each. The Bulletin begins with a summary statement showing the post-war progress of the United Kingdom, the United States, France, Italy and Germany respectively, in each month of 1919, as compared with 1913 and 1918, in certain branches of economic activity, as, for example,

coal production, pig-iron production, ships under construction, imports, exports, and the index-number of wholesale prices. Analogous information is given in fuller detail in the subsequent pages. Perhaps the most interesting of these tables to economists is the comparative statement of index-numbers of wholesale prices and of retail prices respectively in a number of different countries.

THE other publication referred to above is the *Economic Review of the Foreign Press*, which was formerly published under the auspices of the War Office, and is now appearing under private auspices. The *Review of the Foreign Press*, which was composed of selected and classified extracts from the Press of the world, had become of great value to economic students as well as to business men. During the recent campaign for economy it was decided by the War Office to abandon further publication of the *Review of the Foreign Press* and to disband the staff. Public-spirited private enterprise has, fortunately, stepped into the breach and the *Review* is to continue with the same staff as before, under the auspices of a very strong advisory council, the composition of which will guarantee the independent character of the *Review*. The *Review* now appears weekly in two sections, designated the *Economic Review* (being a review and bibliography of current publications dealing with finance, industry, commerce and social organisation) and the *Political Review* (being a survey of political affairs in all countries). The first number of each appeared on November 12th and November 14th, 1919, respectively. The price of each is 1*s*. weekly. Subscriptions and applications for specimen numbers should be addressed to the publishers, *Review of the Foreign Press*, Watergate House, Adelphi, London, W.C.2. The editors of THE ECONOMIC JOURNAL were permitted to make liberal use of the matter in the *Review of the Foreign Press* when it was published under the auspices of the War Office. Their experience of the *Review* justifies them in recommending it as really essential to any student of economic affairs on the continent of Europe under the extraordinary conditions of the present time.

THE Harvard University Committee on Economic Research has become responsible for a monumental production, entitled *The Review of Economic Statistics*, under the chairmanship of Professor C. J. Bullock and the editorship of Professor W. M.

Persons. The contents of the first four quarterly issues are noted under "Recent Periodicals" below. The subscription to the *Review*, including its monthly statistical service, is $100 annually. It is announced, however, that "since the purpose of the enterprise is primarily scientific, the quarterly publication will be supplied, without charge, to a limited number of University libraries and of scientific investigators particularly interested in the problems with which it will deal; the monthly supplement will be furnished only to subscribers."

AN event of more than local interest took place in Kirkcaldy on November 19th, when a bronze tablet, erected to mark the birthplace of Adam Smith, was unveiled by the Provost in the presence of a large assemblage of townspeople. Adam Smith was not only born in 1723 in the house which until 1844 stood on the site now marked by the tablet, but he spent there the greater part of his life, and there wrote (1766–1776) *The Wealth of Nations*. On the occasion of a recent pilgrimage of two Japanese gentlemen to Kirkcaldy, nobody could be found who could identify the spot where Adam Smith was born. This state of affairs has now been remedied by the above gift of a public-spirited townsman, Mr. William Black.

RECENT PERIODICALS AND NEW BOOKS.

Journal of the Statistical Society.

JULY, 1919. *The Wealth and Income of Chief Powers.* J. C. STAMP, D.Sc. The results of examining an immense mass of statistics are lucidly exhibited. *The Course of Women's Wages.* DOROTHEA M. BARTON, M.A. After a survey of several occupations—especially domestic service and textile trades—it is concluded that, whereas before the war the majority of women earned between 10*s.* and 15*s.* a week, they now earn between 25*s.* and 35*s.* (12*s.* 6*d.* and 17*s.* 6*d.* by pre-war standards).

Edinburgh Review.

OCTOBER, 1919. *Taxation of Capital and Ability to Pay.* Dr. J. C. STAMP. The tests of "ability" are furnished by the four questions: How much have you got? How did you get it? Of what does it consist? What charges have you to meet? In the third respect capital taxation, hitting pictures, motor-cars, etc., has some advantage over income tax; but on the whole capital taxation is but a subordinate partner. *More Economic Fallacies in Industry.* SIR LYNDEN MACASSEY. The subject of this sequel to the April article is fallacies hindering co-operation; the adhesion of working men to Marxian doctrines (of which some astounding specimens are quoted from a certain "red catechism"), the "individualistic" notions of employers fatal to sympathy, as shown by some examples. *The Finance of China.* The revenue and expenditure in 1916 were each nearly $472,000,000: a great advance on pre-republican budgets. The foreign debt is about £180,000,000. "The greatest asset of China . . . is her high standard of political morality." *Municipal Housing.* BERNARD HOLLAND. *The Drink Problem.* HUGH ELLIOT. "The unforeseen consequences of compulsory prohibition might greatly outweigh the more obvious ones."

The Fortnightly Review.

SEPTEMBER, 1919. *On the Road to Ruin.* The British workman contrasts unfavourably with his American rival in efficiency, as proved by statistics of production, and in mentality, as illustrated by a recent pronouncement of the American Federation of Labour. The nation is heading towards bankruptcy and revolution. The emigration of capital is a real danger, in spite of the

Socialist poet's satirical description of the capitalists who "started to move their capitals; On board of ships they carted Their railways and canals." *The Economic Outlook in Europe.* SIR GEORGE PAISH. "The financial strength and credit of Great Britain are still undiminished." She would have little difficulty in paying her way but for the help she gives to the Entente nations. France and Italy are indeed in a bad way; Germany and Austria more so. The one hope is in a League of Nations. Its credit would suffice to raise the necessary supplies of food and materials.

Contemporary Review.

NOVEMBER, 1919. *To avoid Strikes.* CHARLES M'CURDY, M.P. *Labour Unrest and the need of a National Ideal.* H. SEEBOHM ROWNTREE. Five steps are needed: a minimum wage for all workers, a forty-eight-hour working week for all industries, adequate insurance against unemployment, measures to afford the workers more control over their industry and more interest in its prosperity. A Royal Commission should be appointed to consider the last two problems. *The Position and Prospects of the Railways.* W. M. ACWORTH. There is a deficit which no conceivable economies can fill. A substantial increase in the existing goods rates is required. Passenger rates can hardly be increased further.

The Nineteenth Century.

NOVEMBER, 1919. *Output and Reward.* LESLIE SCOTT, M.P. A plea for the retention of profits and payment of wages by results.

The International Review

(London: 10 Adelphi Terrace, W.C.).

OCTOBER, 1919. This number contains the text of the German capital levy; to which all movable and immovable property is subject. It is a graduated impost rising from 10 per cent. on the first 50,000 marks to 65 per cent. on amounts over 2,000,000 marks. It may be paid in instalments extending over thirty years.

Quarterly Journal of Economics (Cambridge, Mass.).

AUGUST, 1919. *Federal Operation of Railroads During the War.* FRANK H. DIXON. *Normal Price as a Market Concept.* E. G. NOURSE. *On Stabilising the Dollar.* E. T. PETERS. *Government Control of Sugar.* JOSHUA BERNHARDT. The control was a decided success.

The American Economic Review (Cambridge, Mass.).

SEPTEMBER, 1919. *Protection of Piece-rate.* CHARLES W. MIXTER. A valuable contribution to industrial peace. The danger of rate-cutting is to be averted by intelligent governmental action. No direct interference with matters properly determined by supply and demand is proposed; only the substitution of defini-

tion and publicity for indefiniteness and secrecy. *Organisation, Distribution, and Wages.* HERBERT FEIS. The prevalence of collective bargaining demands a different theorising from that adapted to individual action. The marginal contribution from a group no longer determines the remuneration of any member, as pointed out by Taussig (*Principles of Economics*, Vol. II., p. 151) and Carver (*Quarterly Journal of Economics*, February 1919). A large group indispensable as a whole has much to gain by organisation. *Theories and Tests of Monopoly Control.* C. J. FOREMAN. Various legal definitions of monopoly, absolute or partial, are discussed with learning and acumen. *Statistics of Income.* D. FRIDAY. An analysis of statistics published by the Commissioner of Internal Revenue. *Are Stock Dividends Income?* E. R. A. SELIGMAN. The grand distinction is between the actual receipt of income and the unrealised appreciation of capital. A cash dividend is income; a stock dividend is not.

The Review of Economic Statistics (Cambridge, Mass.).

JANUARY, 1919. *Indices of Business Conditions: I.—A Study of Statistical Method. II.—Application of the Method to Individual Series.* W. M. PERSONS.

APRIL, 1919. *An Index of General Business Conditions.* W. M. PERSONS.

JULY, 1919. *The Balance of Trade of the United States.* CHARLES T. BULLOCK, JOHN H. WILLIAMS, RUFUS S. TUCKER. The history of the American Foreign Exchange is traced first from 1789 to 1914, next during the Great War. The recorded excess of exports (of merchandise and silver) during the latter period was nearly $12,000,000,000; considerably exceeding the total excess in the period 1896--1914. The export of capital during the war period was nearly $11,000,000,000, made up of securities returned from Europe, private loans floated in the United States and (more than two-thirds of the total) direct advances of the United States Government. As regards the annual balance of indebtedness on invisible items, a pre-war adverse balance of $525,000,000 will be replaced for the future by a favourable balance of $195,000,000. The great value of the record is enhanced by the application of economic theory and statistical arts.

OCTOBER, 1919. *The French Indemnity of* 1871 *and Its Effects.* A. E. MONROE. This monograph seems to have been written without reference to Prof. Wagner's standard work on the subject. *British Financial Experience,* 1790-1830. N. J. SILBERLING. *An Analysis of the Exports of Merchandise from the United States.* W. A. BERRIDGE. Although the value of exports is now 217 per cent. more than it was in 1911-14, the quantity is only 42 per cent. greater. Although the maximum value of exports was in 1919, the maximum quantity was in 1917.

Journal des Économistes (Paris).

AUGUST–SEPTEMBER, 1919. *L'endosmose Socialiste.* YVES GUYOT. *Le rapport de la Commission sur les Trusts.* A. RAFFALOVICH. A description of the recent English report on Trusts. *Les Con-*

cordats Commerciaux de la paix. FERNAND-JACK. *La Question des Voies ferrées en Espagne.* A. MARVAUD. *La Standardisation.* G. DE NOUVION. *L'Alliance Nationale des Employeurs et des Employés en Angleterre.* A. RAFFALOVICH. The writer sees in this Alliance the reawakening of the anti-interventionist spirit.

Revue d'Economie Politique (Paris).

MAY-JUNE, 1919. *Les Idées économiques et sociales de Giuseppe Mazzini.* G. ARRAS. The learned Professor of Political Economy at the University of Genoa exhibits the views of his great countryman——hostile to communism, favourable to co-operation. *Le Papier-Monnaie en Turquie pendant la Guerre.* J. NERGEOT. *Le Marché cotonnier du Havre pendant la Guerre.* E. AMPHOUX. *Les Causes de la hausse des prix.* BARON C. MOURSE. [Continued and concluded.]

The editors of the *Revue* announce that in view of changes caused by the war their publication henceforth will be a little less academic than heretofore; the articles will be shorter, and there will be a summary of contemporary economic literature.

JULY-AUGUST, *La politique de paix sociale en Angleterre; les "Whitley Councils."* E. HALEVY. *L'état actuel de la science des finances en Italie.* G. PIROU. *Une solution à la hausse du niveau général des prix.* J. MORET.

SEPTEMBER-OCTOBER. *L'aluminium et la bauxite.* MICHEL AUGÉ-LARIBÉ. *A propos des "baraques" du ravitaillement.* H. BOURGIN. *Le Café et le marché du Havre pendant la Guerre.* X. *La doctrine sociale de Lenine.* CHARLES RIST. An appalling description of Lenin's doctrines as set forth in his last book on *The State and Revolution*, 1917. The "discipline of iron," the "absolute submission to the will of a single person, the Soviet dictator," are among the phrases in which was preached the tyranny which is now being practised. "Justice and equality cannot reign in the first phase of communism." M. Rist finds here traces of the doctrines which he had attributed to "Anarchists" in his *Historie des Doctrines Economiques.*

Giornale degli Economisti (Rome).

AUGUST, 1919. *Il mercato monetario e la guerra.* X. *L'organizzazione scientifia del lavoro e il* "dumping." A. CAHIALI. Referring particularly to the works of De Fleury and Izart.

SEPTEMBER, 1919. *Imposta straordinaria sul patrimonio e prestito forzoso.* B. GRIZIOTTI. The proposal to substitute for a capital levy a forced loan with a low rate of interest is not recommended. Some combinations of these two plans are discussed. *Il mercato monetario e la guerra.* X. The study of money markets in war-time continued from former numbers is here concluded.

La Riforma Sociale (Turin).

JULY-AUGUST, 1919. *Gli indici dei prezzi "secco."* A. CASINO-CANINA. A collection of index numbers for different countries, showing the increase of prices during the war. *Note critiche di*

statistica economica. P. JANNACONE. An unfavourable criticism of Dr. F. Vinci's *L'elasticità dei consumi* (Rome, 1919). *Il calmiere per le pigioni dinanzi al parlamento subalpino*, R. BACCHI.

Giornale di Matematica Financiaria.

MARCH-SEPTEMBER, 1919. *Sull' assicuriazione obligatoria contro l'invalidità e la vecchiaia.* F. INSOLERA.

Revista Nacional de Economia (Madrid).

MARCH-APRIL, 1919. This number contains an account of the Spanish provisions analogous to our old-age pensions. *Coal* and *Conservative Social Democracy* are the subjects of other articles.

NEW BOOKS.

English.

Building Industry, The Industrial Council for. The story of a revolution in industrial development. (The Garton Foundation.) London: Harrison. Pp. 153. 1*s*. net.

CASSON (H. N.). Labour Troubles and how to Prevent Them. "The Efficiency Magazine." 1919. Pp. 208. 1[illegible]

[Includes an account of the systems in operation at Cadbury's and Harrod's.]

CLARK (ALICE). The Working Life of Women in the Seventeenth Century. London: Routledge. 1919. 10*s*. 6*d*. net.

CLARKE (JOHN J.). Outlines of Central Government, including the Judicial System of England. London: Pitman. Pp. vi+111. 1*s*. net.

[A companion volume to *Outlines of English Local Government* by the same author, reviewed in THE ECONOMIC JOURNAL for December, 1916. This new volume is, like the other, a well-arranged compilation of facts, with a good bibliography. Its treatment of the judicial system of England in a manner which should appeal to the general reader supplies a real want.]

CULBERTSON (W. SMITH). Commercial Policy in War Time and After. A study in the application of democratic ideals to international commercial relations. With an Introduction by H. C. Emery Appleton. 1919. Pp. xxiv+479. 10*s*. 6*d*. net.

FEDERATION OF BRITISH INDUSTRIES. The Control of Industry, Nationalisation and Kindred Problems. A report of the Nationalisation Committee of the late Executive Council.

GASKELL (THOMAS PENN). The Curse of Cobdenism. London: P. S. King. 1919.

[" The entire reversal of the fatal policy of '46 " is advocated. The case for Protection is summed up (*à la* Wilson) in "Fourteen Points"; *e.g.*, " The duties on imported goods are paid by the foreign seller and not by the home buyer." " Protection by increasing production affords increased employment and pay." " Protection tends to cause an increase of exports and a decrease of imports."]

HAMILTON (C. J.). The Trade Relations between England and India (1660–1896). Calcutta: Thacker, Spink and Co. 1919. Pp. 263. 5*s*.

[To be reviewed.]

Hawtrey (R. G.). Currency and Credit. London: Longmans. 1919. Pp. 393.

[To be reviewed.]

Hichens (W. L.). The New Spirit in Industrial Relations. London: Nisbet. Pp. 31. 6*d*.

Higgs (Henry). A Primer of National Finance. London: Methuen. 1919. Pp. 168. 5*s*. net.

[Reviewed above.]

Hooker (W. H.). Britain's Oversea Trade. London: E. Wilson. 1919. Pp. 140. 3*s*. net.

Jordan (W. Leighton). On Payment of the National Debt. Four letters addressed to a statesman, with replies to current objections. London: Simpkin, Marshall, 1919. Pp. 22. 9*d*.

Mark (Thiselton). Efficiency Ideals. A short study of the principles of Scientific Management. London: Laurie. 1919. Pp. 127. 2*s*. 6*d*. net.

Mining Industry, A Plan for the Scientific Control of. The Industrial Committee of the South Wales Socialist Society. Copies to be had from D. A. Davies, 38, Cemetery Road, Porth, Rhondda Valley, South Wales.

Nicholson (J. Shield). Inflation. London: King. 1919. Pp. 143. 3*s*. 6*d*.

[To be reviewed.]

Prosser (T. E.). Piece-rate, Premium and Bonus. London: Williams and Norgate. 1919. Pp. vii + 122. 6*s*. net.

[Reviewed above.]

Sheffield (Lord). Imperial Preference. An examination of proposals for its establishment made on behalf of the Government of Mr. Lloyd George. London: Cobden Club. 1919. Pp. 35. 6*d*.

Shirras (G. Findlay). Indian Finance and Banking. London: Macmillan. 1919. 18*s*. net.

[To be reviewed.]

Slater (Gilbert), Edited by. Economic Studies. Vol. I. Some South Indian Villages. London: Milford. 1919. Pp. 265. 12*s*. 6*d*.

Slater (Gilbert). The Making of Modern England. London: Constable.

[To be reviewed.]

Smith-Gordon (Lionel) and O'Brien (Cruise). Co-operation in Many Lands. Manchester: Co-operative Union. 1919. Pp. 272. 5*s*.

[To be reviewed.]

Talbot (F. A.). Millions from Waste. London: Fisher Unwin. 1919. Pp. 308. 21*s*. net.

[The utilisation of waste products is recommended.]

Taylor (G. R. Stirling). The Guild State. London: Allen and Unwin. 3*s*. 6*d*. net.

TODD (JOHN A). The Mechanism of Exchange. London: Oxford University Press. 1919. Pp. 273.

[A second edition of the book reviewed in THE ECONOMIC JOURNAL, 1917. The original text has been little altered; but there has been added a chapter on "Further Effects of the War," dealing with the problem of deflation and the project of an international paper currency.]

WILLIAMS (H. G.). Britain's Financial and Economic Position. London: British Commonwealth Union. 1919. Pp. 47. 1s.

WITHERS (HARTLEY). War-Time Financial Problems. London: Murray. 1919. Pp. x.+306. 6s.

[To be reviewed.]

Y.M.C.A. SETTLEMENT, SHEFFIELD. The Equipment of the Workers. London: Allen and Unwin. 1919. Pp. 333. 6s. net.

[This is a compilation by over thirty collaborators, whose names are given but not their shares in the composition. A secondary title describes the work as "An enquiry by the St. Philip's Settlement Education and Economics Research Society into the adequacy of the adult manual workers, for the discharge of their responsibilities as heads of houses, producers, and citizens." About a quarter of the workers were found to be "well-equipped," able and determined to carry out "far-reaching changes in civilisation."]

American.

COMMONS (T. R.). Industrial Bill. New York: McGraw Hill. London: Hill Publishing Co. 1919. Pp 198.

HARRIS (EMERSON P.). Co-operation, the Hope of the Consumer. New York: Macmillan Co. 1919. Pp. xxii.+328. $2.

LAUGHLIN (J. LAWRENCE). Money and Prices. New York: Scribner's Sons. London: P. S. King. 1919. Pp. 314.

[To be reviewed.]

LAUGHLIN (J. L.). Credit of the Nations. A study of the European war. New York: Scribner's Sons. London: P. S. King. 1919. Pp. 406.

[To be reviewed.]

PEPPER (C. M.). American Foreign Trade: the United States as a World Power in the new era of International Commerce. New York: Century Co. 1919. Pp. xv.+250. $2.50.

[An enquiry into the character and policy of America's foreign trade and her development as a creditor nation. The author has been Foreign Trade Adviser to the Department of State.]

SPARGO (J.) Bolshevism, the Enemy of Political and Industrial Democracy. New York: Harper. 1919. Pp. 289. $1.50.

WOLFE (A. B.). Works Committees and Joint Industrial Councils. Philadelphia: U.S. Shipping Board Emergency Fleet Corporation. 1919. Pp. 254.

[A report dealing with the "human factor in industry," the Whitley Committee recommendations, and various kinds of Councils.]

French.

BARNICH (G.). Principes de Politique Positive d'après Solvay. Brussels: Lebègue. 1919. Pp. 170.

["A general solution of the universal problem of Social Organisation, formulated in a cycle of principles," by the Director of the Solvay Institute.]

COLSON (C.). Cours d'Economie politique. Edition définitive revue et considérablement augmentée. Paris: Alcan. 1915. Vols. 1 and 2.

[This is a new edition of the great work which was reviewed in THE ECONOMIC JOURNAL, with reference to the final volume on Transport.]

GUYOT (YVES). Les conséquences économiques de la guerre aux Etats-Unis. Paris: Agence Economique. 1919.

MONTGOMERY (BO GABRIEL DE). Politique Financière d'aujourd'hui principalement en considération de la situation financière et économique en suisse. Vevey: Klasfelder. 1919.

[To be reviewed.]

SOLVAY (E.). La Rémunération comparative du Capital et du Travail. Brussels: Van Buggenhoudt. 1919. Pp.26.

TRUCHY (H.). Cours d'Economie Politique. Tome Premier. Paris: Recueil Sirey. 1919. Pp. xii. + 458. Fr. 14.

[The course in Political Economy of the Professor in the Faculty of Law in the University of Paris.]

German.

BAUER (S.). Arbeiterschutz und Völkergemeinschaft. Zürich: Art. Institut Osell Füssli. 1918. Pp. 160. 7 francs.

BENDIXEN (DR. F.). Kriegsanleihen und Finanznot. Jena: Gustav Fischer. 1919. Pp. 32. 1.50 marks.

[A suggestion for the creation of new money with which to repay the war loans.]

BRAUN (ADOLF). Der Friede von Versailles: Wirtschafts- und Sozialpolitische Ausblicke. Berlin: Julius Springer. 1919. Pp. 34.

CONRAD (PROF. DR. I.). Volkswirtschaftspolitik. Jena: Gustav Fischer. 1919. Pp. 666. 24 marks.

[This is the seventh and enlarged edition of a famous handbook, edited by Prof. A. Hesse, of Königsberg.]

FUCHS (DR. R.). Die Kriegsgewinne der verschiedenen Wirtschaftszweige in den einzelnen Staaten an Hand statistischer Daten dargestellt. Zürich: Albert Müller. 1918. Pp. 162. 7.50 marks.

HACKS (J.). Die wichtigsten Volkswirtschaftlichen Probleme der burgerlichen Gesellschaft. Breslau: Priebatsch. 1919. Pp. 144.

LOEB (DR. ERNST). Wirtschaftliche Vorgänge, Erfahrungen und Lehren im Europäischen Krieg. Jena: Gustav Fischer. Part I. Pp. 108. 1918. Part II. Pp. 92. 1919.

[A consideration of the effects of war measures on the economic life of Germany.]

MÜLLER (DR. AUGUST). Sozialisierung oder Sozialismus? Berlin: Ullstein and Co. 1919. 3 marks.

[A prominent trade unionist and former secretary of the Imperial Ministry of Economics considers the nature of socialisation and the conditions governing the same. He lays stress on the need of industry of the capitalist undertaker.]

OPPENHEIMER (DR. FRANZ). Der Ausweg; Notfragen der Zeit. Jena: Gustav Fischer. 1919. Pp. 74. 2.50 marks.

[A series of essays by a well-known economist on the economic aspect of the German Revolution.]

PASSOW (PROF. R.). Kapitalismus. Jena: Gustav Fischer. 1918. Pp. 136. 5 marks.

[An attempt by a professor at Kiel to arrive at a satisfactory definition of Capitalism.]

Italian.

BACHI (RICCARDO). Le fluttuazioni stagionali nella vita economica italiana. Roma: Lincei.

EINAUDI (L.). Il problema della finanza postbellica. Milano: Treves.

GINI (PROF. CORRADO). Sul problema finanzario del dopo guerra. Rome: Stato-Poligraphico. 1919.

[Extracted from the Economic Supplement of the *Giornale Il Tempo*; one contribution to which was noticed in THE ECONOMIC JOURNAL, Vol. xxix, p. 120.]

PRATO (G.). La terra ai contadini o la terra agli impiegati. Milano: Treves.

VALENTI (G.). L'Italia agricola e il suo avvenire. Roma: Lincei.